

Risk and opportunity

Edited by Jan Hofmeyr



Transformation Audit
www.transformationaudit.org.za

Institute for Justice and Reconciliation
www.ijr.org.za

2008 Transformation Audit
www.transformationaudit.org.za

Published by the Institute for Justice and Reconciliation
Wynberg Mews, 10 Brodie Road, Wynberg 7800, Cape Town, South Africa
www.ijr.org.za

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ISBN: 978-1-920299-10-1

Copy-edited by Laurie Rose-Innes
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Designed and produced by Greymatter & Finch www.greymatterfinch.com

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PREFACE

The ability to embrace change at points of historical disjuncture, and to turn the risk associated with such change into opportunities for widespread gain, separates functional societies from the rest. In 1994, South Africa reached such a turning point – seizing the opportunity to embrace democracy and to begin a comprehensive process of social and economic transformation. The change generated widespread gains, indeed turning risk into opportunity. Today we find ourselves in a stable South Africa with sound economic fundamentals. This is a tribute to a leadership that drove the vision of a South Africa that could change peacefully and to the benefit of the majority of its citizens

However, with the gains of democracy also came massive expectation and, 15 years later, some disappointment. Despite democracy, peace in communities remains brittle. Despite economic gains, racialised inequality lingers. Despite transformation programmes, institutions continue to suffer from a lack of popular legitimacy. Despite ambitious government policies, the poor continue to suffer from patchy service delivery. Despite having turned the risk of civil war into the opportunity of democracy, we still have a long way to go towards realising a just society at peace with all its citizens, whether rich or poor, indigenous or foreign, black or white.

This year, the *Transformation Audit* once again points with clarity and specificity to a variety of fault lines within our society. South Africa's peculiar version of socio-economic inequality manifests itself in terms of both monetary income and access to basic services. Those who find themselves at the bottom of this social equation remain extremely vulnerable to the consequences of local or international change. To the poor, change almost invariably means large risk and minimum opportunity.

This publication appears at a time of change reinforced by international and South African developments. We find ourselves at a point where deteriorating global economic conditions are beginning to affect all South Africans, particularly the poor. All indications are that the world economy may be verging on a recession that will almost certainly culminate in a fundamental realignment away from the 'turbo capitalism' that has driven excessive profit seeking for more than a decade. While these changes take effect, and Wall Street millionaires seek early retirement, millions of vulnerable people will bear the brunt of the void of uncertainty that the old system is leaving behind.

Simultaneous with these changes washing over the world's financial markets, South Africa's political landscape is realigning itself. At the time of writing, the situation continues to unfold in a number of unpredictable, if fascinating, ways. The once rock-solid African National Congress (ANC) is reeling from a few years of feuding between followers of its two top leaders, Thabo Mbeki and Jacob Zuma. The result of this struggle, which culminated

in the recall of the then President Thabo Mbeki, has been that several key leaders have left the fold to found a new political formation to challenge the ANC in the 2009 general elections. The bruising battle has tested the cohesion of the movement, the contours of party politics in South Africa, and the reputation of democratic institutions, several of which had become embroiled in the infighting.

Thus, at the end of 2008, we find ourselves at another profound turning point in South Africa (in no small measure due to this random convergence of international and local developments), which has significantly deepened the sense of uncertainty and risk experienced by most South Africans. It makes the consolidation of political stability and economic policy urgent, but also elusive. It also begs the question how South Africa can again turn risk into opportunity.

South Africa was able to turn potential risks into opportunities during the change in 1994, because of extraordinary leadership, not only of top leaders such as Nelson Mandela, but also of committed cadres lower down the ranks who shared a sense of responsibility towards the nascent democracy they helped to create.

The question is whether we will be able to draw on similar leadership, both political and in the civil service, to guide us through this period of change in order to ensure that opportunity trumps risk. With this in mind, South Africans will look with great expectation, and some trepidation, to the way in which political leaders conduct themselves in the run-up to the 2009 elections.

Having said this, the 2009 election campaign should not be about personality politics. Policy, not personality, ought to be decisive – not least policies that can allow economic and political gains to feed into the central goal of eradicating the obscene levels of inequality in South Africa. This publication makes an important contribution to that policy discourse. *Risk and Opportunity* takes stock of where we find ourselves at present, but also makes key suggestions about where we ought to be heading.

The Institute would like to recognise and express its sincere gratitude to Old Mutual and Investec Asset Management for their generous financial contributions towards making this publication possible.

In addition, the Institute would once again like to acknowledge its core funders, the Royal Dutch Embassy, the Swedish International Development Co-operation Agency (SIDA) and the Charles Steward Mott Foundation for their continued support of our work.

Fanie du Toit
Executive Director

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INTRODUCTION

TRANSFORMATION AND UNCERTAINTY

Jan Hofmeyr

I am confident that 2008 will be one of the most remarkable years of our democracy, as we all work together to realise the core aspiration of our people to attain a better life for all. I say this because, in our own estimation, it is not often that a nation is called upon to strain every sinew of its collective body to attain a dream. And such is the injunction that history has imposed on us today.

Former President Thabo Mbeki in his 2008 State of the Nation Speech to Parliament (8 February 2008)

When President Thabo Mbeki uttered these words at the beginning of 2008, he did so amidst increasing indications that dark clouds were gathering on the global economic front. Just how severe the approaching storm would be was unclear at the time, but the president nevertheless appealed for unity amongst his compatriots in facing up to the challenges that confronted the nation.

There was of course a subtext to Mbeki's address to Parliament that was difficult to ignore. Just two months earlier, he had been ousted as president of the African National Congress by Jacob Zuma and a new guard of leaders who disassociated themselves from Mbeki's leadership style. A situation had arisen where the ANC in government and the ANC as a movement had become almost two distinct entities. The tension that this elicited eventually culminated in the dramatic recall of Mbeki and the swearing in of his replacement, ANC Deputy President Kgalema Motlanthe.

This recall took place at almost the same time that the global financial crisis started to unfold. Thus, it added a domestic dimension of uncertainty to an already jittery global environment. At this stage, both the national and international scenarios offer few clues about their respective outcomes. As we exit 2008 and enter the new year, we take leave of a political and economic environment that has been largely predictable, and enter one that is far more volatile. The first four editions of the *Transformation Audit* were published under the former conditions of predictability. This edition is the first to interrogate our focal areas in a context that cannot be taken for granted.

THE WORLD THAT WE KNEW...

Four years ago, when the first edition of this publication appeared, South Africa found itself close to the pinnacle of one of its most protracted periods of economic growth. As Trevor Manuel stepped up to the podium that year to deliver his eighth budget speech to the National Assembly, he did so in the knowledge that the country's economic landscape looked distinctly different to that of seven years earlier, when he had addressed the house for the first time as finance minister. Bolstered by 20 consecutive quarters of growth, Manuel felt vindicated for having pursued a strategy of fiscal austerity under the Growth, Employment and Redistribution (GEAR) policy, which had made him hugely unpopular within the left wing of the tripartite alliance. Revenue overruns now made it possible for the minister to table his third consecutive expansionary budget, which included a further enlargement of the state's social welfare net, as well as the announcement of an expanded public works programme that was directed at stimulating employment.

His boldness was underpinned by an international economy that was especially friendly towards commodity-rich developing economies and a domestic market that was riding high on the back of increased public consumption. However, such favourable tailwinds also required proper alignment to extract maximum mileage out of these propitious circumstances. GEAR provided a map with the vital co-ordinates to navigate the country in this global economic environment, while a coherent medium-term expenditure framework made budgeting far more predictable.

Importantly, economic stability over this period had a strong political dimension. The ANC's dominance of the body politic and, in turn, the fact that power and influence within the movement was largely the preserve of those who subscribed to GEAR's underlying tenets made the policy environment highly predictable. Their control of the ruling party saw the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP), the ANC's left-wing alliance partners, effectively being shut out of fundamental policy discussions, and where their advice was sought, the boundaries circumscribing decision-

making were clearly demarcated by the centrists within the party. The ruling party's departure from the Reconstruction and Development Programme (RDP) still elicited a raw sense of betrayal from the left, but apart from their ability to mobilise the masses, COSATU and the SACP had very little at their disposal to dissuade the ruling party from its chosen course. Their position was further weakened when the ANC, dominated by Thabo Mbeki's centrists, brought home an electoral majority of 70 per cent – the largest to date – just two months after Manuel's budget speech.

This combination of economic and political predictability provided stability, but, to be sure, many of the country's critical socio-economic challenges remained. When we look back at the four *Transformation Audits* to date, it is strikingly evident how the optimism elicited by largely positive scorecard trajectories in each of the focal areas (economic growth, employment and industrial policy, education and skills, and poverty and inequality) was tempered by concern about a number of key structural weaknesses that obstructed more equitable social development.

Education is one of them. In 2004, Servaas van der Berg (2004) wrote in the first edition of the *Audit* that while the South African education system had made great strides towards the achievement of universal learner access, inequality remained embedded in the system. He ascribed this not to a lack of resources, but to their inefficient management and the resultant sub-standard quality of educational outputs. South African schools not only performed far below their own potential, they also fared dismally internationally. Quite disconcertingly, Van der Berg pointed to comparative data, which suggested that South Africa continued to be amongst the worst performers in several key subject areas, particularly in the fields of numeracy and literacy.

In subsequent editions of the *Audit*, educational quality remained a key concern. In his assessment of initiatives that had been undertaken to address key educational deficits, Nick Taylor suggested in the 2007 *Audit* that endeavours such as the Joint Initiative on Priority Skills Acquisition (JIPSA) and Dinaledi might provide short-term skills relief, but would not necessarily be able to address the longer-term systemic problems within the system. He pointed out that the emphasis on the country's best universities and functional high schools might provide the shortest avenue to improved results, but a glass ceiling would be reached if sufficient attention were not paid to literacy and mathematical skills at primary school level, where educated learners should be nurtured to occupy the higher institutions. Taylor further contended that a singular focus on technical skills

might neglect the need for other critical skills, such as the managerial capacity to run a modern civil service. Most worryingly, he argued that this focus on functional educational institutions would probably further entrench differentiation in the education and training system, which might ultimately further deepen levels of social inequality.

Educational deficits also lie at the heart of another of the country's most formidable challenges – unemployment. In the 2004 *Audit*, Rulof Burger challenged the widely held notion at the time that the robust economic growth of the preceding years failed to create new employment opportunities. Contrary to such suggestions, Burger pointed to a significant expansion in the number of employed individuals in the period under review, albeit at levels that were far surpassed by the annual number of new entrants to the labour market. Thus, on the upside, more people were employed. On the downside, however, more South Africans than ever before were out of work, desperate to make ends meet and, in many instances, willing to resort to any means to do so. Burger attributed this to a gross mismatch of skills supply and demand in the South African labour market. Put simply, a legacy of apartheid education, combined with an unconsolidated post-apartheid education sector, contributed to a situation where the nature and level of skills that were produced in South African schools and tertiary institutions did not match those that were required to propel the country to higher levels of growth.

Morné Oosthuizen, in the 2006 edition of the *Audit*, concurred with Burger, and in his dissection of this mismatch found that a Grade 12 certificate had become increasingly insufficient to find meaningful employment. Moreover, where learners proceeded to attain further qualifications, the majority did so in subject areas, such as the social sciences, where labour demand was low. This contributed to a situation where even the better-educated section of the labour force struggled to find employment. The cumulative effect of these skills deficits, according to Oosthuizen, was a distortion of wages, which further exacerbated levels of inequality within the economy.

The latter finding is profound, because it draws attention to the third structural flaw, and arguably the most pervasive characteristic of present-day South Africa – widespread poverty that exists in direct proximity to staggering levels of affluence. Successive *Transformation Audit* scorecards testify to a mixed record in this regard. While contending views exist with regard to the direction of change in poverty levels between 1995 and 2000, there is little doubt that average levels of poverty have declined since 2000. In the 2006 *Audit*, Megan Louw suggested that this could be attributed

largely to a gradual improvement in labour market prospects, and, importantly, to a consistent real expansion in social grants expenditure. While she noted that the latter made a significant contribution to combating poverty, the continued extension of grants, without concomitant increases in the level of job creation, encouraged an unhealthy and unsustainable dependence that could translate into extreme vulnerability to economic fluctuations.

Despite the rapid extension of the country's social welfare net to cover close to a quarter of the population, the *Audit* scorecards show that levels of inequality, as measured in terms of the Gini coefficient, have not only remained unacceptably high, but have shown a gradual increase for the period under review. This has far-reaching social implications for the achievement of cohesion in what remains a deeply fragmented society. The IJR's annual *SA Reconciliation Barometer Survey* has shown conclusively in consecutive rounds that ordinary South Africans regard income inequality as the most decisive source of division amongst the country's heterogeneous population (Hofmeyr 2007). When read in conjunction with another survey finding that a strong positive correlation exists between employment status, income and the degree of inter-racial social contact, it becomes patently clear that income inequality is not only an economic matter, but that it also has a deep-rooted social dimension.

Although all of these problem areas were potentially destabilising, they were contained within a context of considerable macroeconomic stability, which GEAR has widely been credited for. The Accelerated and Shared Growth Initiative for South Africa (ASGISA) that was launched in 2006 became an extension of the latter, which shifted policy emphasis from the consolidation of the country's economic fundamentals towards more targeted growth-enhancing projects. The Joint Initiative on Priority Skills Acquisition (JIPSA) that was launched in the same year, in turn, became an extension of ASGISA and targeted the suffocating impact that skills deficits were starting to have on the country's medium- to long-term growth potential. At the same time, policies to promote employment equity and broad-based black economic empowerment (BBBEE) were introduced parallel to these processes, in order to ensure that the economy not only grows, but that it does so in an equitable fashion.

Essentially, therefore, the process of economic transformation since 1994 (in particular, the period covered by the first four editions of the *Transformation Audit*) was characterised by a sense of managed continuity, underpinned by a favourable global climate and domestic political stability. While its underlying tenets were constantly in the firing line,

the direction of macroeconomic policy evolution was always clear and its course highly predictable to both its supporters and detractors. Equally secure, or so we believed, was the political control and tenure of those that drove this reform agenda. As such, assumptions about the present and predictions of the future were framed within the contours set by these considerations. Whether we liked them or not, most took their determinist nature for granted, and, on the basis of these premises, we developed our perspectives on the course, trajectory and variations on the existing modes of economic transformation.

...AND THE ONE THAT WE DON'T KNOW

Within a relatively short period, however, the pillars that supported these perceived orthodoxies have been shaken to the core. At the time of writing, the world finds itself teetering on the brink of a global recession. The sheer speed and manner in which the contagion from the American sub-prime crisis has spread across the Atlantic to Europe and the developing world has prompted some to suggest that, instead of a cyclical adjustment, we may be witnessing a profound realignment of the world economy. In its wake, stock markets plummeted, iconic investment banks such as Lehman Brothers collapsed, while others were either sold in fire house sales or, in the wake of hastily put together government rescue packages, became the objects of *de facto* nationalisation. Almost overnight, the 'fundamentals' that underpinned economic dogma in recent decades have come under scrutiny. As the crisis spilled over into real economies, its impact became increasingly evident in consumption declines and rising unemployment. Not unexpectedly, investors have moved to reduce their risk exposure by disposing of their stocks in developing nations. In the midst of this, a growing sense of global vulnerability has taken root. Obviously, such vulnerability has a strong material dimension, but more threatening is its psychological side, which has been brought about by a crisis that consists of a complex, unprecedented and unpredictable combination of destabilising factors that remains difficult to decode.

While the South African financial sector has had limited exposure to the sub-prime mortgage crisis, the real economy has already been affected quite dramatically by its global impact. Within a relatively short period, foreign investor sales saw the rand and JSE stocks plummet to their lowest levels in years. But the impact of a global slowdown will be felt much wider than the markets. A drop in global demand will hit domestic manufacturing and commodity exports particularly hard and this, in turn, will have far-reaching

implications for the levels of job creation that are needed to make a significant dent in our unacceptably high levels of poverty and inequality. Job creation may also be a casualty of the impact that a weakened rand and more stringent borrowing conditions will have on the government's massive infrastructure expansion programme. An inability to push back the boundaries of unemployment will, naturally, further increase the burden on the country's social security system to provide relief to those finding themselves on the economic margins. Yet, as the economy slows down, tax revenues will dwindle and it will be increasingly difficult to finance a further extension of the social welfare net and, at the same time, cater for the corrosive effect of undesirably high inflation levels on existing grants.

When Trevor Manuel therefore delivered his medium term budget statement to the National Assembly in October 2008, the tone of his message was far more sombre. Although he correctly tried to allay domestic fears by reminding the House of the country's hard-won financial stability, Manuel's message was unambiguously clear: 'The storm has arrived, it is fiercer than anyone could have imagined and its course cannot be predicted.' As if this was not clear enough, the minister, in parting, re-emphasised the seriousness of the challenges ahead and warned his audience that: 'Our country faces a difficult period ahead. There is no telling how deep the global financial crisis will be, nor how severe and enduring its impact will be on incomes and economic activity.' (Manuel 2008)

In such an environment of uncertainty, political leadership becomes critically important to assure and motivate, but also to take painful and unpopular decisions if and when deemed necessary. The choice to embark on the GEAR policy in 1996 probably falls into this category and, as alluded to at the outset, its implementation would have been unthinkable were it not for the ANC's hegemonic dominance of party politics and, more profoundly, the extent of control that policy centrists had over key economic decisions. This has changed. The well-documented chain of events that started at the movement's 2007 National Conference in Polokwane and culminated in the recall of former President Thabo Mbeki dealt a debilitating blow to the cohesion that has made the ANC the formidable political force that it is today. At the time of writing, a new political grouping, the Congress of the People (COPE), consisting largely of disaffected ANC members who were aligned to the defeated faction in Polokwane, was about to be launched. Whether COPE, under the leadership of former defence minister Mosiuoa Lekota and former Gauteng premier Mkhazima Shilowa, will indeed pose a real challenge to the ANC at the polls is at this stage

difficult to guess. What is known is that this internal fracturing will continue to have ripple effects through the body politic for some time.

Given the ANC's political dominance and, as a result of its national deployment strategy that saw the party penetrate pivotal spheres of South African society, it is inevitable that the fallout within the movement will have a knock-on effect in virtually all levels of governance.

On an institutional level, this has manifested in various forms. The most obvious of these has been the recall of President Mbeki and the subsequent resignation of senior ministers within his Cabinet. At the provincial level, the recall of several premiers and bureaucrats, who were perceived to have factional loyalties, has had a significant impact on governance. The merits of such political decisions are, of course, debatable. Less so, is the fact that such a high staff turnover inevitably results in discontinuities at senior levels of governance.

The contest for power within the movement also played itself out in key national departments, where anecdotal evidence suggests that conflicting loyalties have held government efficiency to ransom. In this regard, it is not insignificant that already prior to the Polokwane conference the heads of National Intelligence, Police and the National Directorate of Public Prosecutions were either fired or suspended, due to matters that were directly or indirectly related to the contest for power in the ruling party. Not surprisingly, the Scorpions, the country's elite anti-corruption unit, has been a casualty in the process.

Finally, the institutional impact of this chain of events has been particularly severe in as far as the legitimacy of the judiciary and other organs that are tasked with the promotion of constitutional values is concerned. Because they serve as sources of national cohesion, their integrity and influence are very important during times of economic and political fluidity. In the run-up to the corruption trial of ANC president, Jacob Zuma, comments by senior party officials relating to the independence of the Constitutional Court and the general bona fides of certain Chapter 9 institutions have not been constructive in addressing the underlying sense of volatility that currently permeates our society.

In the months running up to the country's fourth general elections next year, friction within the ANC will probably manifest most strongly on the subtle level of economic policy. At this stage, it is clear that the balance of influence within the alliance has shifted to the left. Whether the degree of influence can be compared at all to that of the Mbekiites at the height of their dominance within the alliance is, however, at this stage a moot point. In the light

of this, it also remains to be seen whether the new guard's stock response of 'change and continuity' on matters of economic policy will convince those who seek greater clarity on the road ahead. The entry of COPE as a potential contender may add a further interesting dynamic to economic policy formation, should it project itself to voters and business as the true custodian of the economic centre and responsible governance. Such positioning may force the ruling party to be far more explicit about what change and continuity in the present context represents. Moreover, in times that are likely to see increasing economic hardship for many, it may come under greater pressure to indicate a clear policy preference for one of the two.

Should this political and policy realignment occur within a context of political tolerance – and there is at this stage little reason to suggest that it would not – it is likely to underscore the country's growing political maturity. However, it remains significant that this change, and the unknown quality that it brings with it, coincides with a particularly vulnerable juncture in world economic history.

Thus, as we approach the end of 2008, little of what seemed to constitute a predictable world in the political and economic realms a year ago, remains intact. Within the short span of a year, certainty has made way for uncertainty. Volatility has replaced predictability. After four years of reporting on economic transformation within a context of relative policy stability, this 2008 edition of the *Transformation Audit* will be the first to reflect on a decidedly changed environment that offers more questions than answers.

Within this context, we have framed the theme for this edition of the publication – 'Risk and Opportunity'. Such times of uncertainty and volatility obviously pose significant risks. We need to understand what they are, and to what extent they are real or perceived. At the same time, such periods of gridlock force us to think differently about our challenges, and hence offer the opportunity for innovation. This is the perspective that this publication would like to bring to bear on our four traditional focal areas: the economy, the labour market, skills and education, and poverty and inequality. Each of these is potentially vulnerable to the risks posed by the time that we find ourselves in. However, each also stands to benefit from new approaches that would replace those that have reached their sell-by date.

CHAPTER 1: GOVERNANCE AND THE ECONOMY

The first chapter of this publication reflects on where the South Africa economy finds itself in the present context. In the first article, Iraj Abedian looks at gains that the economy

has made in recent years, alludes to some of its weaknesses and points to key interventions that must be made to retain its competitive edge. Noting that in recent years our economy has experienced what can probably be referred to as its 'second golden age' after the economic boom of the 1960s, Abedian suggests that it has revealed a mix of resilience, but also critical fault lines that have to be attended to. Gains have manifested in a number of key areas that include the transformation of the structure of the economy, a visible change in the composition of exports, and the modernisation of policy and institutional frameworks. Yet, the presence of several debilitating elements in the economy have served to slow down its momentum. Amongst those that he singles out are human resources development, the absence of a well-articulated industrial strategy, insufficient medium- and long-term planning for productive economic infrastructure, pervasive and damaging co-ordination and integration failures within government departments and, significantly, the economy's downward slide in international competitiveness rankings.

Moving forward, Abedian cautions against an over-reliance on macro policy regimes, and argues that we also need to get the basic micro foundations right, which, according to him, include meaningful educational reform, higher levels of labour productivity, an increase in the share of exports to GDP, an improvement in the efficiency of our state machinery, and the entrenchment of solid institutions of governance to underpin political stability. With regard to the latter, he highlights the need for the harmonisation of formal and informal ethical standards within the government, and within the key constituencies of business and organised labour. He concludes that the transition from an 'elegant and simple' macroeconomic stabilisation framework to a more complex multi-sectoral policy paradigm in the coming years will be 'challenging and risky', particularly under present conditions. Whether we succeed at it or not will depend largely on informed leadership, solid research and sound management.

In the second article, Mills Soko evaluates the current global dynamics that will shape the country's economic and developmental path in years to come. His piece vividly illustrates the new realities of the global order, which include a growing scepticism about Washington Consensus-type globalisation, the demise of the largely bipolar US/EU world trade regime, resource nationalism, the resurgent importance of the state and, more recently, global financial instability. Soko suggests that these international and regional dynamics cannot be ignored in the crafting of domestic policy choices. They also have far-reaching implications for regional growth

and development, as well as the type of role that the country plays in the SADC region and the rest of Africa. He concludes that South Africa will prosper in this emerging new order if policy-makers, corporations and other non-state actors craft and implement adaptation strategies that enable the country to maximise the opportunities that it offers. This, however, requires innovative thinking and not a complete reliance on existing developmental models.

CHAPTER 2: THE LABOUR MARKET

Ingrid and Chris Woolard's review of the labour market in 2008 confirms reports of previous *Audits* regarding a growing economy, which has succeeded in creating a significant amount of jobs, albeit at levels that do not surpass the pace at which new candidates enter the labour market. Against this background, where the frontiers of unemployment are gradually being pushed back, one would assume a broadly experienced improvement in the livelihoods of households across the country. Instead, the Woolards argue that the nature of growth has been such that it has excluded and continues to exclude a large segment of the South African population. The weight of unemployment seems to be disproportionately carried by poor households. Based on their disaggregation of employment data over time, they find that the burden of the unemployed and the households that host them has increased significantly since the first measurement in 1993. Since labour demand seems to be shifting increasingly in favour of those with more skills, they suggest that this reality, combined with our deficits in critical skills, may conspire to entrench a concentration of unemployment amongst the less-skilled and, therefore, continue to widen the wage gap. They conclude that subsidies and allowances in various forms should be considered to facilitate easier access to the labour market, but that ultimately improved education outputs will be decisive.

While skilled individuals may be easier to integrate into a modern economy than unskilled labour market participants, a receptive environment must be present to absorb the available labour in an efficient way. How such an environment evolves is highly dependent on the course and trajectory of an economy's industrialisation processes. In South Africa, as in many other developing countries, this has been the source of an industrialisation debate that posits a purely market driven, organic approach against a state-led industrial policy-making process. The adoption of the National Industrial Policy Framework (NIPF) and the Industrial Policy Implementation Plan (IPAP) has largely settled this debate in favour of the latter. As Oupa Bodibe

suggests in his contribution on industrial policy and employment creation, discussion has now moved from *necessity* to *design* and *effect*. These policies, he feels, have laid the groundwork for a more profound discussion on how industrial policy can shape the economy and the labour market, in particular. Yet, as the sectors that are being prioritised in the current policy documents are capital intensive and account for only around 8 per cent of formal employment, Bodibe believes that the strategy in its present form has limited employment creation potential. Alone, the policy targets appear to be modest in comparison to the magnitude of current unemployment levels, and he suggests that more time and research should be devoted to the identification and support of sectors that have the potential to boost employment significantly.

In the final section of this chapter, JP Landman highlights the significance of demographic development in the assessment of future risk and opportunity in the labour market. While labour and industrial policy constitute direct and proactive responses to our socio-economic context, demographic change presents a more indirect, but nevertheless critical, longer-term determinant of the shape and size of the labour market. Like Ingrid and Chris Woolard, he highlights the gains that have been made in terms of job creation and labour market absorption, but adds that the 'demographic dividend' of declining fertility rates may assist in whittling down the more stubborn structural components of unemployment. However, Landman cautions that demography alone will not deliver us to the Promised Land. According to him, a tenacious pursuit of growth should be anchored in considered and responsible policy. In its absence, we may squander the opportunity presented by these favourable demographic factors.

CHAPTER 3: EDUCATION AND SKILLS

As in previous editions of this publication, the quality of the country's educational outputs remains a recurring theme in each of the 2008 *Transformation Audit* chapters. As the formal South African economy and the country's government bureaucracy continue to gravitate towards a demand for specialised skills sectors, so the importance of a quality-oriented education system grows. Shireen Motala revisits this topic and analyses the questions of access and quality through a framework devised by the Consortium for Research on Educational Access, Transitions and Equity (CREATE), which concentrates on educational access for children between the ages of 5 and 15 years in Bangladesh, Ghana, India and South Africa. She concludes that research results

thus far suggest that we have much to be concerned about. While government policy since 1994 has emphasised equity in terms of access, she believes that closer attention should be paid to those learners who reside in the most vulnerable communities. It has been proven conclusively that the education of children from such backgrounds typically demands more resources than would be the case for children from more affluent backgrounds. The narrow pursuit of resource efficiency to date may have obscured this fact and, arguably, have stood in the way of a decidedly more pro-poor distribution regime. Motala echoes the sentiment of previous contributions on this topic when she points to the important role that a learner's socio-economic environment plays in the shaping of his or her cognitive abilities. She notes that the poverty environments from which most learners come do add a further obstacle, as they slow down the progression of learners through the schooling system. Against this background, the government has shown increasing recognition of the need to craft dedicated policies to address the development of children in the early formative period between 0 and 6 years.

Linda Biersteker, in her article on early childhood development (ECD), sheds light on the evolution of such policy in recent years. Although several studies have made compelling arguments about the benefit that ECD programmes hold for the cognitive, social and economic development of learners, few of these have been conducted in poorly resourced contexts, such as those within which many young South Africans are born. Therefore, a need exists for relevant data and the proper tracking of existing ECD initiatives. Biersteker is optimistic about the current prospects for improved ECD projects, given the privileged position that ECD currently enjoys on the national policy agenda. Yet, in order to ensure that its progress remains quantifiable, it is of great importance that its efficiency should be monitored with accuracy.

In the final section of this chapter, Russell Wildeman reflects on the place of social capital within the educational debate about the effectiveness of outcomes. Since schooling is an inherently social process, Wildeman contends that more empirical research should be directed at the quality of social ties within educational institutions. In his discussion, he employs the concept of relational trust to highlight the pivotal importance of strong interdependent linkages between parents, teachers, a school's administrative leadership, and each of these constituencies amongst themselves. He suggests that, in theory, none of these groups enjoys complete power over another and, therefore, their mutual vulnerability compels them to live up to their obligations and

the expectations that others have of them. Such a model, he argues, is particularly suited for contexts where institutions operate in a turbulent external environment, depend on information sharing for their success, and have decentralised decision-making structures. Because this reduces the transactional costs of decision-making in unpredictable environments, institutions may be far more flexible in adapting to the conditions with which they are faced. Wildeman notes, however, that the various cross-cutting cleavages in our society have resulted in the absence of such a relationship model within our schooling system. He concludes that while relational trust is widely taken for granted as a resource within the First World, it should be strongly pursued as a desirable outcome in our context.

CHAPTER 4: POVERTY AND INEQUALITY

Given the crude inequalities in our society, experiences of the current financial crisis, as well as the expectations of how the government should deal with it, may be quite divergent. Risk and opportunity have different connotations, depending on where one finds oneself on the social ladder. While, at this stage, some may be worrying about their retirement, others are worrying about their next meal. In these circumstances, the former group might caution against populism; the other may take to the streets to demand support.

In recent years, an expanding network of social grants has provided a buffer against poverty for the latter category and, at least partially, has contained levels of inequality. Arguably, the degree of human security that the grants extend to millions has kept the potential for social instability at bay. However, unless mitigating measures are put in place, rising prices and unemployment may erode the material and social impact of grants and other forms of government assistance to the poor. Not only will aid need to be adjusted to the demands of current conditions, it will also have to be expanded to cater for those joining the ranks of the unemployed. Kalie Pauw and Sumayya Goga, in their discussion of the challenges that the present environment poses for the social grant system, suggest that a new ANC government will have its work cut out to provide sufficient poverty alleviation within current circumstances. Having already reached a significant threshold in its expenditure on grants as a percentage of GDP, it will find it increasingly difficult to extend real expenditure in the context of a projected budget deficit. Pauw and Goga suggest that urgent attention should be paid to the development of more efficient labour market policies to stem the tide of a growing stream of social welfare dependents.

In their investigation of pro-poor health care, Ronelle Burger and Servaas van der Berg assert that food inflation and the general impact of a deteriorating economic outlook will place additional pressure on the public health system. How able will this system be to cope with a potential growth in the demand for access to public health care? Their assessment suggests that the prioritisation of primary public health care since 1994 has succeeded to a significant degree in broadening access to health care. However, they conclude that overall health care outcomes within the public system have worsened during this same period, which may have resulted in an overall increase in outcome inequality within the system. Their research points to significant inefficiencies as far as the management of material and human resources are concerned. Since our health budget is already high by comparative standards, they foresee that services and the narrowing of outcome inequalities will have to be addressed by an improvement in the management of resources.

In the final contribution to this chapter, on housing policy towards informal settlements, Marie Huchzermeyer speaks specifically to the question of the vulnerability of those who find themselves at the bottom of our society. Access to shelter is one of the most basic sources of human security, and the way in which this is dealt with by different spheres of

government has far-reaching implications for social cohesion and societal stability. The need for sensitivity becomes even more crucial in the current context of growing material insecurity. Unnecessary dislocation from existing social support and economic networks in these circumstances may have a disastrous effect on the livelihoods of vulnerable individuals. Huchzermeyer argues that this is increasingly what seems to be happening in the formulation and execution of housing legislation. This, she notes, rests on an incorrect interpretation of the Millennium Development Goals (MDGs) as they relate to the eradication of slums. She differentiates between a positive, indirect approach to housing in such communities, which promotes the gradual improvement of informal settlements, and a negative, direct approach that focuses on relocation to formal housing. The latter, which includes the protracted accommodation of uprooted individuals in temporary transit locations, appears to have become the accepted norm, and has found expression in controversial provincial legislation, such as the KwaZulu-Natal Elimination and Prevention of Re-emergence of Slums Act of 2006. Against this background, Huchzermeyer suggests a return to the originally intended positive, indirect approach promoted by the Housing Act of 1997, the Breaking New Ground Policy of 2004 and UN-Habitat.



ACRONYMS AND ABBREVIATIONS

ABET	Adult Basic Education and Training
ASGISA	Accelerated and Shared Growth Initiative for South Africa
BIG	basic income grant
CCT	conditional cash transfer
CPI	consumer price index
CREATE	Consortium for Research on Educational Access, Transitions and Equity
DoE	Department of Education
DoH	Department of Housing
DSD	Department of Social Development
ECD	early childhood development
EFA	Education for All
EFTA	European Free Trade Association
EPWP	Expanded Public Works Programme
EU	European Union
FET	Further Education and Training
FTA	free trade agreement
GEAR	Growth, Employment and Redistribution Strategy
GET	General Education and Training
IPAP	Industrial Policy Implementation Plan
JIPSA	Joint Initiative on Priority Skills Acquisition
LSEN	Learners with Special Educational Needs
MDG	Millennium Development Goal
MTEF	medium-term expenditure framework
NIC	newly industrialising country
NIP	National Integrated Plan
NIPF	National Industrial Policy Framework
NNSSF	National Norms and Standards for School Funding
PTA	parents-teachers' association
PTA	preferential trade agreement
PTSA	parents, teachers and students' association
SACU	Southern African Customs Union
SADC	Southern African Development Community
SASA	South African Schools Act
SGB	School Governing Body
SWF	sovereign wealth fund
TRA	transitional relocation area
US	United States of America
WTO	World Trade Organisation



Chapter one

Governance and the economy

“The country’s rising economic resilience did not happen by chance. Over a decade, the government remained focused on creating political stability as a precondition for economic development.”

Scorecard	Economic performance scorecard	3
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overview

GOVERNANCE AND THE ECONOMY

What are the risks and opportunities that the South African economy faces at the end of 2008? In this chapter, Iraj Abedian reflects on the gains that the economy has made in recent years, but also reflects on the weaknesses that kept it from achieving its optimum performance. Mills Soko, on the other hand, looks more broadly at the global context, which in the coming years will shape the background against which the South African economy will have to work towards its key objectives.

Abedian recognises the great strides that have been made with regard to the modernisation of the country's macroeconomic management framework, but cautions that unless a number of key areas enjoy more focused attention, the sustainability of growth and its commensurate benefits in terms of socio-political development will be at risk. These include skills deficits underpinned by weak human resources development strategies, incoherent industrial strategies, insufficient planning relating to the country's medium- to longer-term economic infrastructure, inadequate co-ordination capacity within government, and a weakening in the country's international competitiveness.

Soko highlights several new global realities that are likely to shape South Africa's economic and developmental policy choices. He notes that they are relevant not only to growth in the South African economy, but also to regional growth and development. He concludes that the country will prosper in this emerging new order if policy-makers, corporations and other non-state actors craft and implement adaptation strategies that will enable the country to maximise the opportunities that it offers. This, however, requires innovative thinking and not a complete reliance on existing developmental models.

Economic performance scorecard

Transformation goal: A stable, broad-based economy, growing at a rate that creates wealth, given population growth						
Desired outcome	Indicator	Status 1990–1994	Status 2006	Status 2007	Status 2008	Positive development
Growth	Real GDP per capita ¹	R20 127 (Ave. 1992–1994)	R23 403 (2005)	R24 498 (2006)	R25 444 (2007)	↑
Stability	CPI inflation rate ¹	9.3% (1994)	3.3% (2005)	4.6% (2006)	6.5% (2007)	↓
Ability to access markets	Real exports ¹	R170 602 million (Ave. 1992–1994)	R288 190 million (2005)	R312 173 million (2006)	R338 038 million (2007)	↑
Broadened base	Managers and professionals who are African ²	216 772 (1995)	444 020 (2005)	490 612 (2006)	852 643* (2007)	↑
Investment	Real aggregate investment ¹	R102 784 million (Ave. 1992–1994)	R202 778 million (2005)	R237 288 million (2006)	R258 413 million (2007)	↑

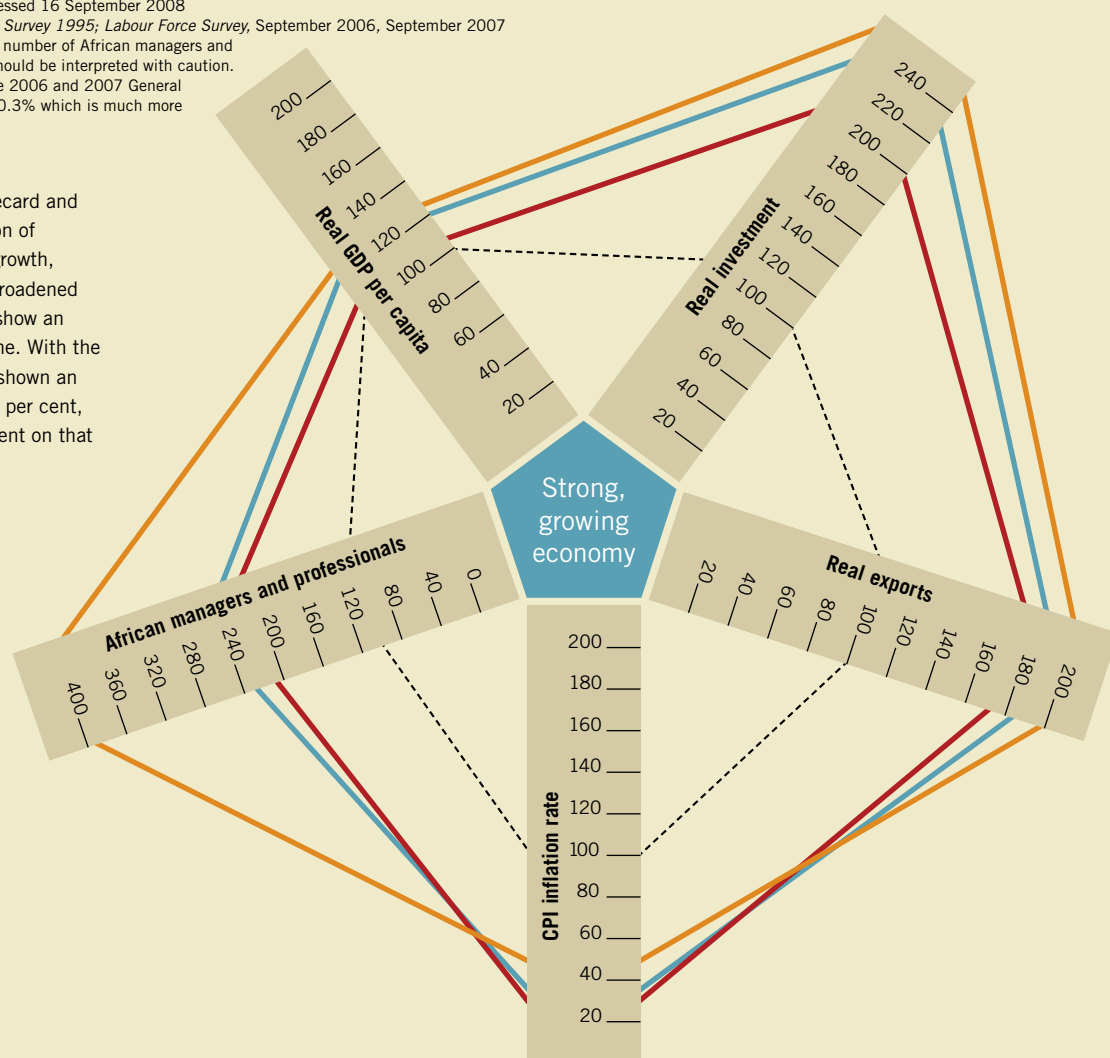
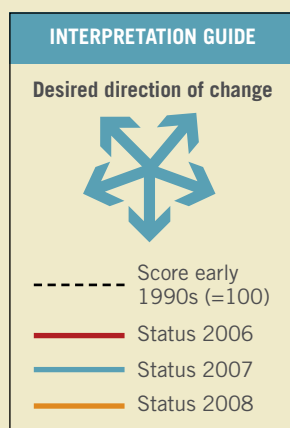
1. Source: <www.reservebank.co.za> accessed 16 September 2008

2. Sources: Stats SA, *October Household Survey 1995*; *Labour Force Survey*, September 2006, September 2007

Note: *The large increase (72.6%) in the number of African managers and professionals between 2006 and 2007 should be interpreted with caution.

When the same calculation is done on the 2006 and 2007 General Household Survey data, the increase is 30.3% which is much more modest, but still large.

The Economic Performance Scorecard and Star provide a snapshot impression of changes in the key indicators of growth, stability, competitiveness and a broadened base for the economy. All scores show an improvement on the 1990 baseline. With the exception of inflation, which has shown an increase from 4.6 per cent to 6.5 per cent, all scores also show an improvement on that of the previous year.



research

ACHIEVEMENTS, FAILURES AND LESSONS OF THE SOUTH AFRICAN MACROECONOMIC EXPERIENCE, 1994–2008

Iraj Abedian

Against the backdrop of over 14 years of uninterrupted GDP growth, the South African economy in 2008 reveals a mix of resilience and critical fault lines. In the midst of one of the most tempestuous global financial crises, initiated as a result of the USA's so-called 'sub-prime housing finance' problem, the economy has continued to maintain its growth path, albeit at a markedly slower pace. The economy's rising growth performance since 2001 has been underpinned by a series of policy reforms initiated by South Africa's democratic government since 1994. The modernisation of the country's macroeconomic management architecture during the 1990s further coincided with, and was reinforced by, a period of unprecedented prosperity in the world economy between 2001 and 2007. Over this period, the spectacular expansion of, *inter alia*, China, India, Russia and Brazil led to a lengthy commodity boom, the so-called 'commodity super-cycle'. Many emerging economies experienced a declining risk profile, improved balance of payments conditions and upgraded investment rankings. South Africa was one of the beneficiaries of these global structural reforms and their associated accelerated world GDP performance. Consequently, the South African economy registered, arguably, its second 'golden age' after its acclaimed 1960s period of economic boom.

The country's rising economic resilience did not happen by chance. Over a decade, the government remained focused on creating political stability as a precondition for economic development.

Yet, the sustained and rising growth of the economy has also highlighted some major, and potentially damaging, fault lines in the socio-economic landscape. There is little doubt that unless the root causes of the prevailing shortcomings are identified and remedial actions are taken, the

sustainability of economic growth and the attainment of further socio-political development will be seriously at risk. This article sets out to review some of the salient achievements of our economic policies and to examine some of the key outstanding areas that need attention with growing urgency.

KEY ACHIEVEMENTS OF MACRO POLICY SINCE 1994

The period since 1994 witnessed a remarkable transformation in the fortunes of South Africa. Not only have the socio-political changes made the country a new global model of political process management and peaceful, constructive conflict resolution, but the pace and the breath of macroeconomic policy changes have been rare and consistent. At the start of the period, South Africa was saddled with an unstable macroeconomic environment, potentially vulnerable to internal and external shocks. Economic growth was stagnant, and had been negative for the 3-year period prior to 1994. Inflation was high, as were nominal interest rates, government annual budget deficit ratios and public debt. Corporate taxes were relatively high and individual taxes even more so. The business sector was largely protected, uncompetitive and often in need of state support and subsidy. Generally, factors of production including capital, management and labour had low productivity, far below the country's global counterparts. Unable to attract foreign investment or access the international capital markets, the country's foreign reserves were effectively non-existent. Historic foreign exchange controls were in place, with their attendant negative perceptions, complicating financial management operations. In short, the economy faced policy as well as structural dilemmas within a rapidly integrating and growing global economy.

From that starting point, it is noteworthy that by 2004, in less than a decade, the country was rated as an investment grade destination with 'stable or positive outlook' by all the global rating agencies. The country's rising economic resilience did not happen by chance. Over a decade, the government remained focused on creating political stability as a precondition for economic development. Four important developments contributed to progress over the period.

Firstly, the structure of the economy was transformed in several interlinked ways. In general, the country's revenue base was progressively diversified. Contrary to common perceptions, the economy's national income is no longer dominated by the production of primary products or commodities. By far the main contributor to national income is the tertiary sector (consisting of private and public service

activities) at over 60 per cent of GDP. By way of example, the tourism sector, with all its associated activities, contributes as much if not more to the GDP these days than mining. In terms of the latest estimates, in 2007 the contribution of tourism to the economy was 9.8 per cent of the GDP and its share of employment was projected at 6.7 per cent of total jobs created within the formal economy.

Secondly, export composition was diversified, enabling the country to reduce its reliance on commodities as the source of foreign exchange earning. Nowadays, South Africa's motor industry is almost as important for gross export earnings as is the gold industry.¹

Thirdly, a consistent mix of financial, institutional and budgetary reforms has systematically and completely modernised the government's fiscal institutions and operations. The following were key amongst these reforms:

- The Medium-Term Expenditure Framework (MTEF), introduced in 1997, was a landmark in the process of fiscal reforms. Until then, the system of expenditure planning was commonly known as annual incremental budgeting.²
- The creation and commercialisation of the South African Revenue Service (SARS) in 1997 was a bold and crucial reform underpinning, *inter alia*, fiscal management of budget deficits due to greatly improved revenue collections,
- The Public Finance Management Act 1 of 1999 (PFMA) represented a radical departure from Exchequer Acts of the past.³ The PFMA places greater emphasis on accountability for *results* (i.e. outputs and outcomes). The overarching aim of the PFMA is improvement in the operational efficiency of government spending.
- The adoption of inflation targeting on 23 February 2000, with an inflation target range of 3–6 per cent effective for the year 2002, was a controversial, yet critical, step in transforming the conduct of monetary policy.

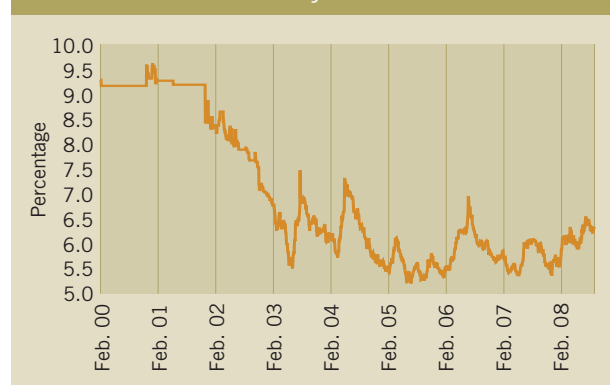
Alongside such reforms, operationally much improvement was effected in areas of cash management, asset-liability management and the inter-institutional co-ordination of fiscal and monetary policies. Some key outstanding refinements notwithstanding, few developed countries, and even fewer emerging economies, enjoy the same macro fiscal conditions that characterise contemporary South Africa.⁴ This has enabled the government to generate the financial resources and the fiscal oversight regulatory framework for

addressing the historic backlogs in public service delivery to the majority of the population.

Fourthly, over the past decade, a great deal of policy and institutional modernisation has been introduced. With growing integration into the global economy, the country's corporate governance framework, institutional oversight, and competition policy have been tested and found to be internationally competitive.

With rising creditworthiness and considerably improved macroeconomic and fiscal conditions, the country's sovereign risk premium (i.e. the additional yield over and above the benchmark US Treasury Bonds) has declined considerably, as shown in Figure 1.1.1. As a result, the cost of borrowing in the global capital market declined steadily for both the public and private sectors. The cost of South African government borrowing reached its lowest in mid-2005. This was an explicit and considerable reduction in South Africa's implicit risk premium. As illustrated, since 2000, a series of local and global factors has contributed to a rising sovereign risk premium, yet at levels substantially lower than a decade ago.

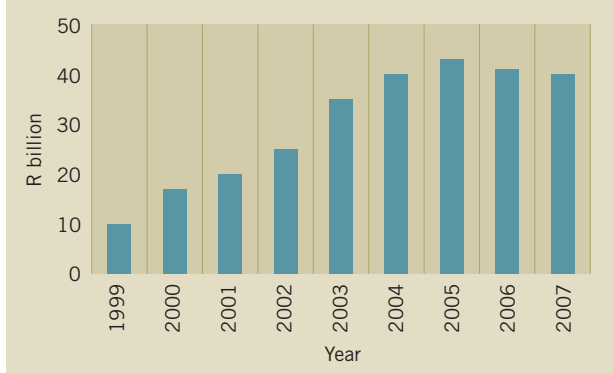
Figure 1.1.1: South Africa's sovereign risk declines considerably



Note: This figure plots the difference between the yield on USA Treasury bonds and SA Treasury bonds of the same duration.

Closely linked to the developments in the macroeconomic policy arena over the period has been the substantial deepening of the capital markets in the country. This has been a major strategic objective of the overall policy. Not only does South Africa have one of the top 20 stock exchanges in the world, but its corporate bond market has flourished over the period. As can be seen in Figure 1.1.2, corporate bond issues have increased markedly, which was made possible, in part, by the National Treasury's declining reliance on the local capital market for its deficit financing

Figure 1.1.2: Corporate bond issues in South Africa by calendar year



Source: Bond Exchange of SA, own calculations

requirements. Such capital market deepening is critical for financing the long-term fixed investment required for underpinning growth within the economy.

In brief, the upshot of an extensive policy and regulatory overhaul has been a steady 'normalisation' of the country's macroeconomic and business governance environment. Within this framework, the uninterrupted growth in economic performance has led to a steady rise in the country's per capita income, as shown in Figure 1.1.3.

Rising per capita income is a necessary, but not sufficient, condition for sustainable development. Unless the required conditions are put in place, the rising per capita income is unsustainable and, indeed, reversible. As important as a steady rise in the country's growth path, the volatility of growth over the period diminished substantially. Thanks to the macroeconomic framework, over the period 1994–2007, the South African economy was amongst the least volatile of a basket of developing countries' economies. Figure 1.1.4 illustrates the global comparison.

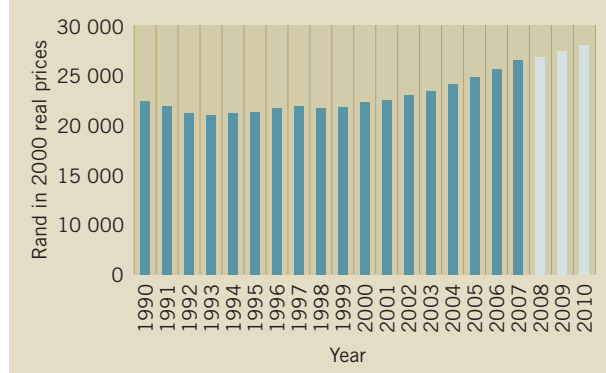
Maintaining economic growth with the least possible volatility, over the long term, is the core precondition for a country's ability to deal with its developmental challenges.

POLICY FAILURES

Despite the aforementioned achievements, the period under review also faced critical policy inadequacies and outright failures. As a result, some key structural shortcomings have remained obdurate, unresolved and potentially a risk to the acknowledged achievements.

At the forefront of our failures has been the field of human resources development. At present, the single most obstinate factor hindering economic growth and welfare is the

Figure 1.1.3: GDP per capita by calendar year, 2010 forecast



prevailing inadequacy of our education and training system; widespread shortage of skills within society is but one of its manifestations. It is a fact that the modernisation and technological upgrading of the economy during the past decade has increased the economy's skills intensity sharply. This, in turn, has accentuated the systemic unemployment problem. Meanwhile, the country's human capital accumulation has proved wanting. While much has been achieved in promoting access to the public schooling system, little has been achieved with regard to improving the quality of education offered. 'Unemployability', widespread vacancies and a huge skills gap have emerged concurrently. Consequently, the income and wealth inequalities within society have been exacerbated. Bhorat and Van der Westhuizen (2008: 11) note that:

the economy's Gini coefficient increased from 0.64 in 1995 to 0.69 in 2005. This is a disturbing result for a number of reasons: Firstly, measures of income inequality by international experience, do not alter significantly over time in either direction. It takes large shifts in economic growth for example, to change an economy's income distribution or a very particular pattern of growth...Secondly, the result is disturbing within the context of South Africa being historically ranked as the most unequal society in the world with Brazil. This new result would suggest that South Africa is now the most consistently unequal country in the world. Simply put, while the democratic period has delivered declining poverty levels, it has also been marked by a significant rise in aggregate income inequality.

Figure 1.1.4: Volatility of emerging markets' GDP growth, 1994–2007 (standard deviation)



Source: IMF database, own calculations

Furthermore, intra-racial inequalities have also increased, as shown in Table 1.1.1.

Table 1.1.1: Inequality shifts by race (Gini coefficients for 1995 & 2005)

Race	1995	2005
<i>African</i>	0.55	0.56
<i>Coloured</i>	0.49	0.58
<i>Asian</i>	0.45	0.53
<i>White</i>	0.39	0.45
Total	0.64	0.69

Source: Bhorat & Van der Westhuizen (2008)

Note: The changes in the values of the Gini coefficients between 1995 and 2005 are statistically significant at the 95% level, with the exception of Africans. The population in 1995 has been weighted by population weights according to the 1996 Census. Population weights are not available for the 2005 dataset, and the population has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

Another crucial policy failure has been the absence of a well-defined industrial strategy that is rooted in the comparative advantages of the country and enhanced by an appropriate mix of factor prices and foreign exchange policy. Despite much lip service over the past decade, the government has largely failed to put in place a credible and generally acknowledged industrial strategy.

In particular, some of the country's sources of comparative

advantage are either neglected or markedly eroded. Agriculture and agri-industries have received little, if any, attention. In fact, the process of land distribution has been so poorly managed that it has caused much uncertainty in the farming sector, without yielding a meaningful resolution of the land issue.

At present, the single most obstinate factor hindering economic growth and welfare is the prevailing inadequacy of our education and training system; widespread shortage of skills within society is but one of its manifestations.

Industrial and trade policies commonly go hand in hand. While the industrial strategy has remained in the doldrums, trade policy has introduced much liberalisation, which, together with the exchange rate policy, has eroded the country's industrial base. Consequently, the share of manufacturing in the GDP has declined and remained stagnant over the period.

Another failure of the period, possibly one of the most damaging, has been the absence of medium- to long-term planning for productive economic infrastructure. This most poignantly manifested itself in the electricity crisis of late 2007 and the first quarter of 2008. While the need for investing in electricity generation capacity had been made public in the 1998 White Paper on Energy Policy, and Eskom had forecast that South Africa would run out of electricity by 2007, the government had placed a moratorium on Eskom investing in new generation capacity. At the same time, procrastination in policy formulation in the field of energy generation resulted in an outright failure to ensure alternative private sector participation and investment in power generation in the country.⁵

Several other areas of infrastructure planning were equally neglected. Most importantly, the country's aging urban infrastructure has been largely ignored. Even the key metropolitan centres suffer from basic symptoms of decay in their urban utilities, poor institutional performance and weak financial management capability. More generally, the local government institutional infrastructure has been left to falter. To highlight the severity of the problem, it suffices to note that according to a Municipal Demarcation Board study (MDB 2008), 23 per cent of the municipal chief financial officers had only Grade 12 certificates, 64 per cent of techni-

cal services managers had less than four years of experience, and 46 per cent of municipal managers had been in their positions for less than one year. In addition, the level of skills mismatch and vacancies in local municipalities was as high as 40 per cent. The implications of such infrastructural deficiencies for local economic development, social welfare and economic competitiveness are considerable.

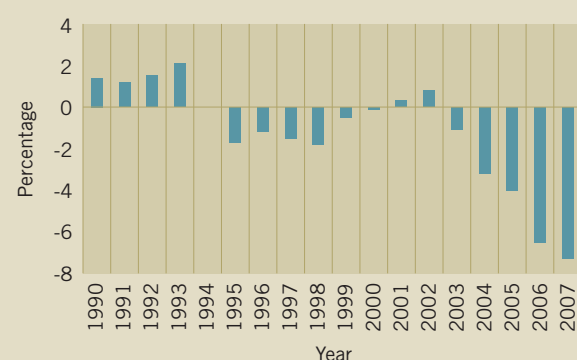
A combination of factors over the period under consideration has had the unfortunate consequence of entrenching the rise of mediocrity within the government apparatus.

Closely linked to the poor infrastructural planning has been a pervasive and damaging 'co-ordination and integration failure' within and between government departments. This is true of inter-departmental relations within each sphere of government and between the spheres of government, as well as state-owned entities. Furthermore, operationally the public sector environment lacks efficiency and systemic dynamism. This is true despite interventions such as the *Batho Pele* (People First) initiative, the new Public Service Act and the Public Finance Management Act.

A combination of factors over the period under consideration has had the unfortunate consequence of entrenching the rise of mediocrity within the government apparatus. While the general shortage of skills in the country has been a contributing factor, a series of misguided practices in respect of remuneration, tenure of office and recruitment criteria has led to growing inefficiency within the state. Most importantly, the absence of political and executive accountability has been a key contributing factor. By way of example, it is a fact that very few, if any, ministers or heads of department have been taken to task, despite their annual financial audits having been found unsatisfactory year after year. Such blatant condoning of poor performance and sub-optimal utilisation of public resources has a strong systemic and corruptive impact on the operational efficiency of the public sector. Indeed, the entire economy has been adversely affected.

Finally, not the least of the failures in recent years has been faltering global competitiveness. While South Africa's global competitiveness rose markedly during the first decade of democratisation, over the past five years, in a number of areas of competitiveness, the country has lost its edge. The regulatory environment governing labour legislation, telecommunications, mining licensing, environmental manage-

Figure 1.1.5: Ratio of current account balance to GDP



Source: SA Reserve Bank database, own calculations

ment and aspects of black economic empowerment legislation have caused setbacks, inefficiency and delays in business operations. The intractability of crime, the loss of public sector efficiency, poor infrastructure provision and lethargic public policy-making processes are some of the other key factors contributing to the loss of competitiveness. These factors combined to culminate in a sharp fall in South Africa's ranking by five positions in the World Economic Forum's 2006/07 *Global Competitiveness Report*. It is clear that much is left to be desired with regard to the management of the country's global competitiveness.

While the private sector has done much to catch up with global productivity levels over the past decade, the same cannot be said about the public sector, be it government departments or public enterprises and agencies.

One of the key consequences of falling global competitiveness is the growing balance of payments deficit in recent years. As illustrated in Figure 1.1.5, the growing deficits in the balance of payments have been made up for by the import of capital, which reached the high and unsustainable level of 7.3 per cent of the GDP in 2007.

Although it is true that the surge in imports has been large, and caused in part by massive investments in infrastructure, it is nonetheless a fact that South Africa's export intensity has fallen in recent years. To achieve and sustain high export levels (35 per cent of the GDP or higher), a robust mix of private and public sector productivity increases is needed.

While the private sector has done much to catch up with global productivity levels over the past decade, the same cannot be said about the public sector, be it government departments or public enterprises and agencies. In fact, under pressures of economic growth, the relative performance of the public sector has fallen over the period. It is highly ironic that at the very time when the government had plenty of financial resources and the economy had been doing so consistently well, the public service's organisational and operational environment experienced notable decline.

MOVING FORWARD: LESSONS OF EXPERIENCE

It is important that we do not overemphasise the significance of macro policy regimes as regards their ability to create and expand jobs, sustain economic growth and reduce inequality. Without a doubt, low inflation and a stable macroeconomic environment are critical 'necessary conditions' for a growth-friendly environment. However, there are other equally important factors that are required to sustain growth and ensure that the fruits of growth are shared broadly. Key amongst these is a sound education and training system that leads to systemic skills generation and availability. This, in turn, brings about employability, a better distribution of income and growth sustainability.

Another factor is an efficient and effective state machinery that ensures adequate public infrastructure and reinforces sustainable expansion of economic activity. Yet another critical variable is political stability, founded on solid institutions of governance and an entrenched respect for property rights. Over time, these factors underpin the comparative success of countries as regards better income distribution, sustainable job creation and lower volatility in economic growth rates. Such micro foundations of job creation and sustainable growth could not be compensated for by macroeconomic policy measures.

Harmonisation of formal and informal ethics is critical

As importantly, the establishment and promotion of an explicit set of value systems is of rising significance. Over the past decade, a gradual but tangible rift has emerged between the country's socio-economic 'formal' as opposed to 'informal' ethics. For example, in the business sector, corporations formally subscribe to the 'good codes of corporate governance'; yet, operationally, they do not hesitate to collude and/or to abuse their market powers. Evidence of price fixing amongst pharmaceutical companies, bread producers and steel manufacturers has emerged in high-profile cases over the past year or so. The banking sector

is also accused of malpractices, and a report in this regard is yet to be made public by the Competition Commission.

government ministers and departmental executives espouse 'global best practices', and yet operationally in their organisational and managerial behaviour there is little evidence of values, standards or practices that conform to their formal statements

The gap between formal and informal ethics within the government is even more pervasive. More often than not, government ministers and departmental executives espouse 'global best practices', and yet operationally in their organisational and managerial behaviour there is little evidence of values, standards or practices that conform to their formal statements. Allan Schick, in his review of the prevalence of formal and informal rules in the public services of developing countries, observes that: 'they are hired because they know the right person or have contributed to some organization or cause...there are two coexisting civil service systems – one based on formal rules, the other on actual practices' (Schick 1998: 128). It may be argued that much of the public sector's inability to perform may be attributable to the gap between the formal and informal rules. This is particularly pronounced at the top levels of public sector organisations, and filters down through the entire system.

The duality of values is equally prevalent in the labour union structures. The union leaders espouse objectives such as 'employment security', 'job creation', 'investment promotion' and the like; yet, in their conduct, speeches and practices, more often than not they invoke threatening tones, adopt cumbersome procedures, agitate and provoke sentiments that are conducive to labour-shedding business strategies and the adoption of capital-intensive technologies. The fact is that over the past decade, the non-wage component of labour costs in South Africa has increased markedly. Clearly, this cannot be conducive to any of the ideals espoused by the labour unions. Importantly, the adversarial behaviour of the labour unions is beneficial neither for those employed (the insiders), nor for the unemployed (the outsiders).

Export promotion is essential for sustainability

To ensure GDP growth on a sustainable basis, a robust export sector is required. In recent years, the share of export to GDP

has fallen from its high of 25 per cent (in 2002) to the current level of below 20 per cent. This is far too low, given the structure of our economy. This unsatisfactory and sub-optimal state of affairs has manifested itself in an exceptionally high current account deficit of over 7 per cent of GDP. While, in the short term, such a high current account imbalance may be manageable – mainly via inflow of foreign capital – it is not sustainable. At the very least, it is a source of macroeconomic instability and vulnerability to the vagaries of the global financial markets.

Based on the experience of South Africa's peer countries in the developing world, our export ratio should average at around 35 per cent of GDP, so as to create the platform for sustainably high growth rates over time. To this end, reversing the country's falling global competitiveness ranking should be a top strategic objective. After all, in a globalising environment, it is the relative position that assumes rising significance for the sustainability of growth and development.

Professional public service management

Going forward, the South African economy now needs an appropriate mix of macroeconomic and microeconomic policies to help achieve rising global competitiveness, on the one hand, and to deal with rising socio-economic inequalities, on the other. Significantly, the conceptualisation of such a policy mix and, more critically, its successful implementation, requires a well-resourced state. Unlike the stabilisation policy that could be effected with a strong National Treasury supported by a sound monetary policy framework, the success of economic policy henceforth relies heavily on the capabilities of the state infrastructure and its effectiveness in policy development, co-ordination, integration and implementation. Therefore, assuming that we arrive at an appropriate policy framework, investing in the capacity of the state is inescapable if we hope to reverse some of the failures of the recent past.

Given that nearly 40 per cent of the country's GDP is managed within such an environment, it is stating the obvious that unless the productivity of the public sector improves drastically, the country's global competitiveness is at risk; so, too, is the prospect of accelerated social delivery. A well-functioning and development-oriented local government sphere is particularly significant for an integrated economic policy that aims to achieve much higher economic growth that is well spread across sub-national regions.

To turn the prevailing public service environment around requires resolute political leadership. The public service needs to be largely professionalised. To this end, a conscious

de-politicisation of the public service is the first necessary step. This needs to be reinforced by a political leadership and management leadership whose actions are congruent with their formal and policy pronouncements. Procrastination in this regard is bound to deepen a culture of mediocrity and bureaucratic compliance within the public sector, which is inimical to sustainable growth and social development.

It is a fact that South Africa in 2008 has a totally different macro-financial configuration than a decade ago. Its public debt and fiscal deficits are clearly within the norms of sustainability. As such, care should be taken that macroeconomic solutions are not made a substitute for micro-institutional measures that are needed to ensure success in this arena. Clearly, a lowering of the cost of capital has a role to play as part of an overall package of measures. But, more critically, the effective cost of labour, the productivity of public investment and the efficacy of public service delivery need to be assessed carefully. Given the rising skills-intensity of South Africa's tertiary sector economy, special attention has to be paid to the entire human resources development infrastructure. South Africa needs to engage with those factors that lead to the rising employability of the youth, the expansion of business, the development of management skills within the public sector, and the ability of the economy to sustain its relative global resilience. Notably, human resources development is also a crucial cornerstone of the country's innovation system and its ability to generate research and development in a global world where competitiveness is often based on intellectual property and capacity. It is success in these areas that would define the prospects for further socio-economic success.

Lastly, graduating from the elegant and simple macroeconomic stabilisation framework of the past decade into the aforementioned complex, multi-sectoral economic policy paradigm is bound to be challenging and risky. A great deal of ongoing research and sound management would have to underpin political leadership to ensure success in this regard.

NOTES

- 1 Note that in terms of net foreign exchange earnings, the gold industry is still ahead.
- 2 The MTEF introduced a three-year rolling budget projection.
- 3 The Exchequer Act 66 of 1975 and the provincial Exchequer Acts.
- 4 While macro fiscal conditions are sound, it may be argued that South Africa's micro fiscal foundations are far less than sound.
- 5 For a lucid analysis of the root cause of the electricity crisis, see Eberhard (2008).

review

THE GLOBAL CONTEXT OF UNCERTAINTY: RISKS AND OPPORTUNITIES FOR SOUTH AFRICA

Mills Soko

INTRODUCTION

This article examines developments in the global political economy since the mid-1990s to the present period, and assesses the influence these developments are likely to have on South Africa's economic prospects in the coming years. The assessment of South Africa's economic fortunes is undertaken within the context of a changing global economic environment characterised by a number of systemic features, which have heralded a general climate of uncertainty regarding the state of the world economy. This article will focus on five of these factors: the backlash against globalisation in many parts of the world; the end of the bipolar world trading system; the unravelling of the global financial system; the rise of resources nationalism; and the 'return' of the state as an engine of economic development.

The general point to be made here is that South Africa's domestic circumstances cannot be separated from international political and economic influences. Nor can they be insulated from regional developments in the Southern African Development Community (SADC), which have crucial implications for South Africa's economic welfare. South Africa's fortunes in the world economy will be shaped not only by how the country implements its domestic and foreign economic policies but also by the future trajectory of the evolving global and regional economic settings. The emerging order presents South Africa with risks, but also with opportunities. The key challenge facing South African policy-makers, corporations and other non-state actors is to craft and implement adaptation strategies that will enable the country to maximise the opportunities and to manage the threats.

The article is divided into two main parts. The first part analyses the salient systemic attributes that have been exemplified by the evolving global economic setting. The second segment highlights the risks and possibilities for South Africa within these international and regional environments.

GLOBAL CONTEXT

Backlash against globalisation

Although many countries claim to be in favour of globalisation and free trade, their rhetoric and actions have proved to be the opposite. The past few years have seen growing scepticism, especially in industrialised countries, about globalisation, in particular, and the 'Washington Consensus' nostrums that dominated policy-making in the 1990s. Public opinion has become cynical about the benefits of globalisation. According to an opinion poll commissioned by the *Financial Times*/Harris, many industrialised nations' citizens felt that globalisation was having a negative effect on their countries, with strong anti-globalisation sentiments recorded in the United Kingdom, France, Italy, Spain, Germany and the United States (US) (*Financial Times* 22.07.07). The findings of this study were echoed by a US opinion survey carried out for the NBC/*Wall Street Journal*, which recorded that 46 per cent of respondents felt that trade agreements had 'hurt' the US (Thirwell 2007: 3).

South Africa's fortunes in the world economy will be shaped not only by how the country implements its domestic and foreign economic policies but also by the future trajectory of the evolving global and regional economic settings.

Fuelling pessimism about globalisation has been widespread discomfort with the economic rise of China (and, to a lesser extent, India), which is seen no longer as an opportunity but as a threat. As such, several industrialised countries have been reassessing the consequences of globalisation. In the US, some politicians have resorted to economic populism to drum up political support (*New York Times* 16.07.07).

So have European politicians. In Europe, the angst about globalisation was summed up in a comment made by French President Nicolas Sarkozy in June 2007. Following his success in persuading his European colleagues to agree to amend Article 2 of the old Constitutional Treaty – by discarding 'free and undistorted competition' as a policy goal – he was cited as saying: 'The word "protection" is no longer taboo...Competition as an ideology, as a dogma, what has it done for Europe?' (*Financial Times* 22.07.07).

Growing doubts about the benefits of globalisation have

been underlined by the failure of the World Trade Organisation (WTO) to conclude the Doha Round of multilateral trade negotiations, which began in 2001. WTO members had committed themselves to concluding a multilateral agreement before the end of 2006. The problem is that in many countries, especially industrialised countries, trade is viewed increasingly as part of the problem, not the solution. Trade has been blamed for static wages, job losses, rising inequality and ecological damage. This has eroded domestic support for open markets and for further trade reform in many countries (see Warwick Commission 2007).

Another issue that has compounded concerns about globalisation has been the growing role played by sovereign wealth funds (SWFs) – huge pools of capital controlled by governments and invested in private markets abroad – in the global economy. In particular, interest in SWFs has been sparked by an announcement that China intended to set up its own investment fund in order to manage a share of the country's massive foreign exchange reserves – valued at more than US\$1.3 trillion (Thirwell 2007: 9). Other countries that operate SWFs include Kuwait, Norway, Russia, Saudi Arabia, Singapore, South Korea and the United Arab Emirates.

Although SWFs have existed for decades, their role in global financial markets is poised to grow considerably. For one, foreign exchange reserves held by Asian central banks alone reached approximately US\$3.52 trillion in 2007 (*Wall Street Journal* 13.07.07). According to research by Stephen Jen of Morgan Stanley (2007), the present size of the world's SWFs could be as large as US\$2.8 trillion and is forecast to soar to nearly US\$12 trillion by 2015.

Western criticisms of SWFs have focused on these funds' 'lack of transparency', as well as on the dangers attendant to ownership by government-controlled entities, especially given that these funds tend to cluster in industrial sectors that are sensitive to national security considerations, such as infrastructure, energy and transport. There have also been suspicions that the operations of SWFs have been motivated by foreign policy rather than commercial considerations.

The end of the bipolar world trading system

The traditional dominance of the world trading system by the US and the European Union (EU), as well as Japan, has been upset by the ascendancy of emerging powers, particularly China, India and Brazil. The US and the EU remain the foremost actors in global trade – transatlantic bilateral trade amounts to 400 billion euros per year – but they have now been joined in the elite league by these countries with potential to become leading trade powers themselves (EU Commission 2007: 4–8). Not only do China, India and Brazil have vast economies (see Table 1.2.1) and overseas commercial interests, their economic diplomacy has global ambition and reach. Together they represent 15 percent of global trade flows (EU Commission 2007: 6).

China's expanding clout has been recognised by its trading partners, and its phenomenal economic growth has catapulted it into the league of leading trade powers. China is already the third largest exporter of merchandise goods in the world. It is the fourth largest national economy – its gross domestic product is two-thirds the size of the US

Table 1.2.1: Projected GDPs of Leading National Economies, 2000–2030 (in 2003 US\$ billions)

Year	Potential poles of the multilateral trading system				Current poles		Total GDP of potential poles as a percentage of...	
	Brazil	China	India	Total (Brazil, China, India)	Total for four largest EU nations (France, Germany, Italy, UK)	Total for four largest EU nations plus the USA	Total for four largest EU nations (France, Germany, Italy, UK)	Total for four largest EU nations plus the USA
2000	762	1 078	469	2 309	5 701	15 526	40.5	14.9
2010	668	2 998	929	4 595	7 047	20 318	65.2	22.6
2020	1 333	7 070	2 104	10 507	8 292	24 707	126.7	42.5
2030	2 789	14 312	4 935	22 036	9 284	30 117	237.4	73.2

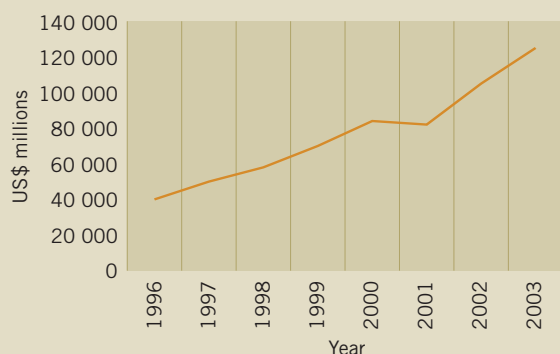
Source: Wilson & Purushothaman (2003)

economy – and is poised to become the second biggest economy in the coming years (Shenkar 2006). Geopolitical and foreign policy factors have been a consideration in China's pursuit of its global objectives. China's aspirations are not merely about the reinstatement of the country's global economic leadership of previous centuries; they are also about the restoration of the nation's stature in politics, culture and security. As part of its political vision to become a world power, Beijing has become increasingly assertive in world affairs (Shenkar 2006: 37).

The remarkable, globalisation-powered rise of China and the unprecedented structural transformation this has wrought to the world economy prompted the eminent American economist Paul Samuelson to question in an influential article published in 2004 the applicability of the notion of comparative advantage, as it is classically understood, in the global economy of the 21st century. Of concern was whether the notion of comparative advantage could operate in a context where China could compete across the board in manufacturing and services not only in labour-intensive sectors but also in high-tech industries.

China's ascendancy has brought to the fore the country's tetchy economic relationship with the US. At the heart of the relationship, and a source of deep concern in Washington, is the significant bilateral trade deficit (which at the time of writing stood at US\$250 billion) that the US has with China. For many US politicians, the trade deficit with China typifies many of the fears the US harbours about the economic and security challenges posed by China's ascendancy (Thirwell 2007: 7). It is not just Washington that has ramped up rhetoric towards China. Parts of the EU have echoed Washington's critical position on Chinese trade and currency policies (*Financial Times* 23.07.07).

Figure 1.2.1: Mainland China trade surplus with the US, 1996–2003



Source: US Census Bureau (2003)

The US administration has accused China of deliberately undervaluing its currency and manipulating markets in order to promote growth for its exports (Hale & Hale 2008), and it has demanded that the Chinese government take action to remedy China's growing annual trade surplus with the US (see Figure 1.2.1). American politicians have argued that increasing the value of the yuan against the dollar will concurrently reduce Chinese exports to the US by making them more expensive, and increase US imports to China by making them cheaper.

Moreover, the economic rise of China has accentuated concerns about the consequences of globalisation, particularly in the context of growing public concern in the West about climate change. In respect of international trade, there has been a push in the US for the inclusion of provisions on labour and environmental standards in trade agreements. In addition, US legislators have demanded the incorporation of measures on investors' rights and national security at ports (Thirwell 2007: 9).

Although their economic performance has not been as outstanding as that of China, both India and Brazil have played key leadership roles in shaping the contemporary global economy. Four factors are likely to influence Brazil, China and India's external commercial policies in the coming decades (Evenett 2007: 19–22).

First, all three economies have turned to external demand to stimulate growth (via exports) and are reliant on open overseas markets. Roughly 40 per cent of each of these countries' exports go the US or to Europe. Second, notwithstanding the trade reforms they have implemented, access to these countries' markets remains restricted. Third, these countries are members of relatively few free trade agreements (FTAs) and have been unwilling to considerably liberalise their economies within the context of reciprocal FTAs. Lastly, they have used industrial policy to advance domestic and international commercial objectives. In the 1990s, for example, the Chinese government adopted a policy of selecting and nurturing a 'National Team' of firms able to compete in international markets (Nolan 2001).

Global financial instability

The global financial turmoil has undermined confidence in the global economy. It has sparked a dangerous crisis of legitimacy for the international financial system. It has illustrated a catastrophic failure of unfettered markets, and the damage to the world economy has been immeasurable. Although many developing countries have been largely insulated from the financial meltdown, they will not be able to escape its indirect consequences, including limited access

to credit in international markets, declining foreign investment inflows and decreasing exports. Restoring confidence in the global financial regime will undoubtedly be the overarching priority of policy-makers in the coming years.

Resources nationalism

In recent years, the world has witnessed the rise of resources nationalism. This has been characterised by the implementation by resource-rich countries – such as Russia, Venezuela, Bolivia and Iran – of policies and strategies to increase returns from their natural resources to advance national development (Johnson 2007). Central to the logic of resources nationalism is an assertive and active role for the state in regulating the market as a way of maximising the state's share of the profits from resources.

Several motives explain the embrace by countries of this nationalist posture. For example, in Russia the supply of hydrocarbons has been deployed as a tool of foreign policy to pursue political objectives in Ukraine, Georgia and the wider EU. In Venezuela, oil revenues have underpinned the populist programmes that have been championed by the country's left-wing president, Hugo Chavez.

It is worth noting that resources nationalism is not the sole preserve of developing economies. This is exemplified by the state-owned Chinese National Offshore Oil Corporation's (CNOOC) unsuccessful attempt to purchase US oil firm Unocal. National security concerns were cited as a factor in rejecting CNOOC's bid. Dubai Ports World's bid to run some US ports was also scuttled on roughly similar grounds (Thirwell 2007: 12).

Allied to the challenge of resources nationalism have been the consequences of the US-led Iraq War and the subsequent occupation of Iraq. The Iraq War has contributed to oil market instability by decreasing Iraqi volumes and increasing supply risk exposure in other regions of the world. The Iraq War has not only underscored the central importance of the Middle East to the rest of the world, it has also confirmed that the global oil market is fundamentally driven by politics and bargaining power rather than by conventional market forces (see Noreng 2005).

The 'return' of the state

Disillusionment with the current model of globalisation – typified by, among other things, the faltering world trade system, the government and societal response to the global credit crisis, and the growth of resources nationalism – has heralded a clamour for the reinstatement of the state as the regulator of markets (*Fortune* 27.10.08).

This is a recognition that markets have limitations and

that governments have a central role to play in shaping globalisation, even though their nature and policy functions have been redefined by the latter, and amounts to an important ideological departure from the 'Washington Consensus' that has been the defining feature of global policy-making in recent years. It represents the end of the era of Reaganism and Thatcherism, which regarded the government as part of the problem, not as part of the solution.

RISKS AND OPPORTUNITIES FOR SOUTH AFRICA

The stalled Doha Round, coupled with growing protectionism in the industrialised world, does not augur well for South Africa, a vibrant trading nation with a strong interest in an open, predictable, credible and rules-based multilateral trading regime. It will undermine this trade regime and also perpetuate the pattern of bilateral and regional trade agreements that have fragmented world trade and weakened multilateralism. Moreover, it will cost the world economy US\$300 billion a year in wasted trade opportunities (Martin & Anderson 2005).

As one of the active actors in the global trade system over the past decade (see *The Economist* 21.02.04), South Africa must continue to champion an open, fair and inclusive multilateralism in the WTO. South Africa's global aspirations suggest that the country is likely to have more in common with the so-called emerging poles of world trade: China, India and Brazil. These nations have transformed power relations in the world economy and it is in South Africa's interest to cultivate them for its material benefit and to mould global economic governance.

Table 1.2.2: Travelling cargo pants: locations of suppliers in network

Supplier	Location
<i>Yarn</i>	Pakistan
<i>Fabric</i>	China
<i>Buttons</i>	China
<i>Zipper</i>	Japan
<i>Production</i>	Bangladesh
<i>Orchestration</i>	Hong Kong
<i>Retail distribution centre</i>	United States of America

Source: Adapted from Fung (2007)

The evolving nature of comparative advantage in the 21st century will have enormous ramifications for a developing country such as South Africa with a strong interest in labour-intensive manufacturing. This is because unlike Japan or Korea, China has no intention of abandoning the labour-intensive sector as it climbs the value ladder. On the contrary, China intends to leverage its supremacy in labour-intensive and mid-technology industries to finance a move into the knowledge-intensive industries of the global economy (Shenkar 2006: 3). This strategy of maintaining dominance in labour-intensive sectors, even as China moves into technology-driven industries, will pose unparalleled challenges to China's competitors. And it will necessitate that the South African government and companies devise new strategies and business models to take account of the new competition realities.

South Africa's global aspirations suggest that the country is likely to have more in common with the so-called emerging poles of world trade: China, India and Brazil.

South African trade policies ought to adapt to the changing nature of competition in the global economy. The fragmented nature of the modern production system means that the manufacturing process no longer takes place 'in-house' (Fung 2007). Thanks to globalisation, the world production system today is different from the past. Previously, manufacturing a product meant every stage of the manufacturing process would be carried out 'in-house' – in one factory, under one roof, and in one country – before a product was exported. Today, manufacturing entails a completely different process; production is dispersed across different factories in different countries (see Table 1.2.2).

Global supply chains have made it possible for companies to source complex production and services to lower-cost economies. They have made it possible for developing countries such as South Africa to provide one or two pieces of the value chain. It is no longer companies that compete, but supply chains. This has lowered the entry barriers for small and medium-sized enterprises, with significant consequences for employment and economic development (Fung 2007). To be successful in international commerce, South Africa must be able to compete in global production value chains.

Furthermore, South African policy-makers need to recognise that some trade regulations undermine the global pro-

duction system from which the country has benefited. One of these regulations concerns preferential trade agreements (PTAs) and the attendant rules of origin, which distort flows of goods, create barriers and raise prices for exporters. In structuring the supply chain, businesses have to take into account every country of origin rule, and this constrains companies in optimising production globally. As each new PTA is entered into, issues relating to rules of origin proliferate and become ever more complex (*Financial Times* 4.11.05).

The emergence of new powers – notably China, India and Brazil – in the global economy constitutes a boon for South Africa. Individually and collectively, China, India and Brazil represent vast export market opportunities for South Africa (*Financial Mail* 25.03.05). However, as competitors (in sectors such as textiles, steel and motor vehicles), they also represent a challenge to South Africa's trade and industrial policies. This makes it necessary for South African policy-makers to study carefully how these countries' economic strategies are likely to unfurl in the coming years and to develop appropriate trade and industrial policy responses.

In China's case, moreover, as Beijing's economic relations with South Africa deepen and the former's investment in South Africa increases, the role of China's SWFs will invariably come to the fore. This is also true of the oil-rich Arab countries with which South Africa has been expanding trade and investment ties. Before welcoming such investment, South African policy-makers would have to be reasonably certain that they understand where these funds come from, what they are investing in and how they are being managed. Especially, they would have to assess the merits and demerits of having a foreign government control South African assets (Soko 2008).

The recent international calls for the restoration of the state to the centre of economic development and governance will find favour with South African decision-makers. It accords with attempts to build a developmental state in South Africa that can drive growth and development while redressing the social and economic inequalities inherited from the apartheid era (Turok 2008). The issue of the role of the state in development has attracted the interest of South African policy-makers in recent years. The roots of this interest can be traced in part to the development experience and success of East Asia's newly industrialising countries (NICs), whose policies many developing countries have sought to emulate.

The robust strength of East Asia's developmental states *vis-à-vis* societal interests bestowed upon them a degree of autonomy that enabled decision-making elites to define

developmental goals independently and to insulate themselves organisationally from societal pressures. The relative autonomy enjoyed by these states provided them with the capacity to take advantage of their control over the production process to influence actor behaviour and mobilise social support for their policies. The character of the state institutions of the NICs (with their typical emphasis on highly meritocratic and selective recruitment of bureaucratic personnel) instilled a sense of commitment and corporate coherence, which promoted conditions in which the pursuit of corporate goals was rewarded and the maximisation of individual self-interest discouraged. This, in turn, enhanced the insulation of bureaucratic incumbents from societal influence (Alam 1989; Evans 1992).

The recent international calls for the restoration of the state to the centre of economic development and governance will find favour with South African decision-makers.

A relevant question to ask is whether the industrialisation trajectories of East Asia's 'economic tigers' can be replicated in South Africa. This is somewhat doubtful. For one, the South African state does not have the extensive degree of autonomy and authority once enjoyed by its East Asian counterparts, thanks to South Africa's robustly democratic (rather than authoritarian) political system and the massive power still wielded by domestic capital and labour in relation to the state. Furthermore, when contrasted with those of its East Asian counterparts, the domestic and global conditions under which the South African state has been integrating into the world economy are likely to make it difficult for the country to reproduce the developmental model of the East Asian NICs.

First, these NICs (especially Korea and Taiwan) used their geo-strategic significance during the Cold War to win preferential access to the massive US market, without having to reciprocate by opening their own markets. This provided a vast captive market for their export commodities. Second, in line with their designated role of 'bulwarks' against communism, these states took advantage of US military and economic aid to bolster their domestic savings and low patterns of consumption. Third, they embarked upon export-led growth when most industrialising countries were still pursuing import-substitution policies. These special conditions provided a unique geo-political and economic context in which the developmental goals of the NICs could be realised (Strange 1996: 6–7).

It is unlikely that this degree of success can be attained elsewhere in the post-Cold War period. The end of the Cold War has implied that developing states cannot continue to enjoy preferential treatment – in terms of market access, as well as economic aid – similar to that provided by the US to its client states during the Cold War. Moreover, the inexorable pursuit of trade liberalisation by national states under conditions of enhanced economic globalisation in the past decade has meant that individual states are under growing pressure to embrace more liberal trade and investment policies (Strange 1996: 6–7). All these factors suggest that South Africa would be best served by pursuing a developmental model that is uniquely suited to its domestic political, social and economic conditions.

Notwithstanding the severity of the ongoing global financial turmoil, the South African banking system has remained relatively immune to the meltdown. This relative immunity has been ascribed to a number of factors, including prudent regulation by the government of banks, the retention of exchange controls and sheer good luck (*Financial Mail* 10.10.08). Even so, South Africa is unlikely to escape the indirect consequences of the economic slump. The crisis is bound to constrain access to credit in international markets. It will spark a decline in foreign investment inflows into the country as investors delay projects or scale down investments. It will also have an adverse effect on exports, due to reduced external demand induced by weak global growth. There is a silver lining, though. The recent decrease in oil and commodity prices could provide relief for consumers and importers, while the weaker rand will bolster exports. Moreover, ongoing spending on infrastructure in preparation for the 2010 World Cup will continue to provide a crutch for the South African economy (*Financial Mail* 10.10.08). The financial crisis has underlined the importance of sound regulation of the banking sector and of careful economic planning.

The Eskom electricity debacle has exposed the deficiencies of South Africa's energy policy and the vulnerability of the country's economy. Energy efficiency is crucial to enabling South Africa to fulfil its economic goals and to promote sustainable development. The rise of resource nationalism has potentially far-reaching consequences for South Africa's economy, as well as its foreign and investment policies. South African diplomacy needs to respond proactively to the challenge of resources nationalism, and energy policies ought to be tailored accordingly towards diversification of sources of oil and other commodity imports. In addition, South Africa must strengthen its efforts to develop an integrated energy policy that also draws on alternative energy sources.

Regional pressures will have as vital an influence as the global factors on South Africa's domestic situation. One of the issues that pose a risk to the economic welfare of the SADC region is the outcome of the negotiations on economic partnership agreements (EPAs) between the EU and the SADC-EPA group (Kruger 2007). The outcome of negotiations has exposed a rupture among members of the SADC-EPA group. If they are not resolved, the differences within the SADC over the EPA negotiations could impair the broader regional integration project in southern Africa (*Business Day* 25.0.08). Fundamentally, this has raised questions about the tension between, on one hand, the developmental integration model (based on the principles of balance, equity and mutual benefit) that the SADC countries originally set out to pursue and, on the other hand, the classical model of economic integration that seems to have dominated the regionalisation discourse over the past years. This has triggered, in turn, doubts as to whether SADC countries can effectively tackle the social dislocations caused by polarised regional growth.

These challenges must be addressed if the SADC is to reduce regional economic polarisation and manage the destructive aspects of economic globalisation. In this context, South African policy-makers need to give attention to two issues. First, there is a need to clarify the fundamental purpose of the regional project in southern Africa and the integration model that regional member states want to implement. Second, it is necessary to understand South Africa's role in the region, especially given attempts by certain states (notably Zimbabwe and Angola) to challenge South Africa's position and question its leadership credentials in the regional order (Alden & Soko 2005). In addressing these concerns, policy-makers will have to weigh South Africa's regional obligations against its domestic pressures.

The issue of South Africa's role in the southern African region has drawn attention to yet another leadership challenge to South Africa emanating from external powers such as the EU, China and India. China's growing economic role in Africa, in particular, has started to reverse South Africa's share of the African export market and to erode the competitive advantage in manufacturing that South Africa has enjoyed on the continent over the past decade (Grobelaar 2008). It is worth noting that China's foray into Africa has been driven by a combination of market and non-market competitive strategies. For South African policy-makers and firms, this highlights key questions about the direction and effectiveness of South Africa's external economic policy in the African context and how this can respond effectively to the new realities in what was previously viewed as a 'captive market' for South Africa.

GBP	15
USD	8
EUR	12
JPY	0
AUD	6
PULA	0
SGD	6
HKD	1

JSE Movers

ARCELORMI
SAPPI LTD
EXXARO RE
ANGLO PLA
SASOL LTD
NETCARE L
ANGLO AME
IMPALA PLA
RMB HOLDI
NAMPAK LT



Chapter two

The labour market

“Africans continue to be over-represented in lower-skilled occupations where wages have grown more slowly than for higher-skilled categories.”

Scorecard	Labour market performance	21
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Briefing	Demography and the labour market: Risks and opportunities <i>JP Landman</i>	30
Analysis	The visible hand of development: Industrial policy and implications for job creation <i>Oupa Bodibe</i>	37

overview

THE LABOUR MARKET

In their overview of the South African labour market in 2008, Ingrid and Chris Woolard show that the burden of unemployment is being carried disproportionately by poor households. Given our history of extreme inequality, this should probably not come as a complete surprise; nevertheless, one would have expected the current state of affairs to be the result of a gradual reverse of this condition. This is not the case, as the Woolards indicate. Their research points strongly to the contrary, suggesting that since 1993 there has been a significant increase in the burden on the unemployed and the households that host them. Because labour demand increasingly favours those with scarce skills, they fear that a concentration of unemployment amongst the less-skilled will continue to widen the wage gap. They conclude that subsidies and allowances in various forms should be considered to facilitate easier access to the labour market, but that improved education outputs will ultimately be decisive.

Oupa Bodibe, in his contribution on industrial policy and employment creation, argues that the introduction of the National Industrial Policy Framework (NIPF) and the Industrial Policy Implementation Plan (IPAP) has laid the groundwork for a more profound discussion on how industrial policy can shape the economy, and particularly the labour market. While Bodibe is not convinced that the sectors currently being targeted in the policy documents have the potential to make a significant dent in unemployment, he is positive about the impetus that these documents have given to the development of a more refined industrial policy.

While labour and industrial policy constitute direct and proactive responses to our socio-economic context, demographic change presents a more indirect, but nevertheless critical, longer-term determinant of the shape and size of the labour market. In the final section of this chapter, JP Landman highlights the significance of demographic development in the assessment of future risk and opportunity in the labour market. Landman suggests that the 'demographic dividend' of declining fertility rates may assist in whittling down the more stubborn structural components of unemployment, but cautions that in the absence of an uncompromised pursuit of growth such an advantage may be squandered.

Labour market performance scorecard

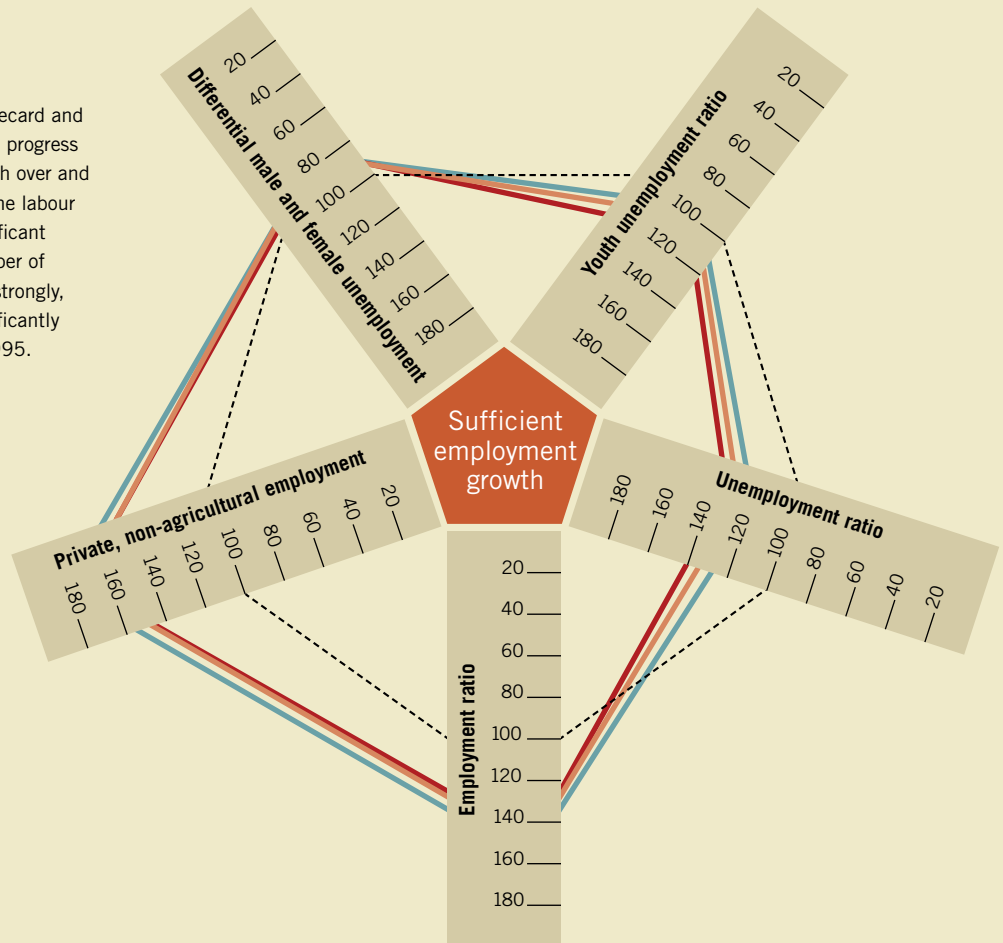
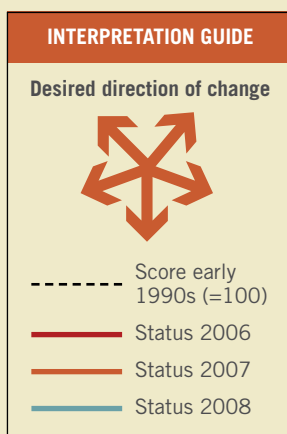
Transformation goal						
Consistent employment growth in excess of new entrants to the labour market						
Desired outcome	Indicator	Status 1990–1994	Status 2006	Status 2007	Status 2008	Positive development
Adequate employment growth	Employment ^{1, 2}	9.6 million (1995)	11.9 million (2004)	12.3 million (2006)	12.9 million (2007)	↑
	Private non-agricultural employment ²	6.7 million (1995)	9.7 million (2005)	10.0 million (2006)	10.4 million (2007)	↑
	Unemployment (expanded definition) ³	27.8% 4 million (1995)	38.8% 7.8 million (2005)	37.5% 7.6 million (2006)	35.6% 7.3 million (2007)	↑
Absorption of first-time entrants	Youth unemployment ³	41.5% 2.9 million (1995)	50.4% 5.7 million (2005)	48.6% 5.5 million (2006)	46.6% 5.3 million (2007)	↑
Broad-based employment	Differential between male and female unemployment ³	1.58 (1995)	1.48 (2005)	1.47 (2006)	1.45 (2007)	↑

1. Excluding small-scale farmers

2. Sources: Stats SA, *October Household Survey* 1995 to 1999; *Labour Force Survey*, September 2006, September 2007

3. Sources: Stats SA, *October Household Survey* 1995; *Labour Force Survey*, September 2006, September 2007

The Labour Market Performance Scorecard and Star provide a snapshot impression of progress towards consistent employment growth over and above each year's new entrants into the labour market. All measurements show significant year-on-year improvements. The number of employed workers continues to grow strongly, but unemployment still remains significantly higher than in the baseline year of 1995.



review

RECENT DEVELOPMENTS IN THE SOUTH AFRICAN LABOUR MARKET

Ingrid Woolard and Chris Woolard

INTRODUCTION

Creating jobs and reducing unemployment are key economic and social challenges in South Africa. This is recognised explicitly by the South African government, which, under the Accelerated and Shared Growth Initiative for South Africa (ASGISA), aims to halve unemployment by 2014 by removing a number of constraints on faster output and employment growth. Later in this chapter, Oupa Bodibe explores one aspect on this, namely the employment creation prospects of the National Industrial Policy Framework and the Industrial Policy Implementation Plan as a means to reduce unemployment.

In this article, we provide a broad overview of some of the recent trends in labour force participation, employment and unemployment. To set the scene, Table 2.1.1 gives a high-level snapshot of these trends between 1995 and 2007. While the data are not strictly comparable over the entire

period, the overall trends are generally considered to be plausible (OECD 2008).

LABOUR FORCE PARTICIPATION CONTINUES TO RISE

The working age population (i.e. the number of persons aged 16 to 64 years) increased from 26 million people in 1995 to 30 million in 2007. At the same time, the labour force participation rate increased from 51 per cent to 59 per cent. These two reinforcing factors resulted in an additional 4 million people entering the labour market over this period.

Since 1994, the composition of the labour force in South Africa has changed dramatically. Notably, the respective shares of Africans, young people and women increased considerably. These changes alone would have increased unemployment. Banerjee et al. (2006) estimate that these demographic changes in the labour force account for roughly one-third of the increase in unemployment between 1995 and 2005.

This surge in labour supply was driven by a complex set of factors related to both the end of apartheid and societal changes. The advent of democracy saw 'a release of pent-up labour supply' (OECD 2008). Restrictions on where one could live and on the accumulation of financial and human capital were removed. Opportunities for job search increased, and people moved in large numbers from rural to urban areas to seek jobs that had been closed to them in the past.

Table 2.1.2 shows the labour market participation rates for men and women, using the official definition of

Table 2.1.1. Participation, employment and unemployment rates using the official (narrow) and broad definition, 16–64-year-olds

Year	Official classification ^a			Broad definition ^b	
	Participation ^c	Employment ^d	Unemployment ^e	Participation ^c	Unemployment ^e
1995	51.4	43.3	15.6	60.3	28.2
1997	48.2	37.5	22.1	60.6	38.0
1999	55.4	41.7	24.8	69.0	39.9
2001	59.4	41.4	30.3	72.1	42.5
2003	56.8	40.6	28.6	70.6	42.5
2005	57.2	41.9	26.7	71.2	41.1
2007	58.7	45.3	22.7	70.4	35.6

Source: Authors' calculations using Stats SA (1995, 1997, 1999, 2001, 2003, 2005, 2007)

Notes: (a) To be classified as unemployed under the official definition, a person must not have had a job or business in the seven days prior to the survey interview, but must have looked for work or taken steps to start a business in the four weeks prior to the interview and must be available to take up work within two weeks of the interview. (b) To be classified as unemployed under the broad definition, a person must not have had a job or business in the seven days prior to the survey interview but must want to work and must be available to take up work within two weeks of the interview. (c) The labour force participation rate is the percentage of the population aged 16–64 years that is in the labour force (i.e. employed or unemployed). (d) The employment rate is the percentage of the population aged 16–64 years that is employed. (e) The unemployment rate is the percentage of the labour force that is unemployed.

unemployment (and, thus, labour force participation). There was an increase in labour force participation rates of both sexes in the late 1990s, notably among females whose participation rate increased by 11 percentage points between 1995 and 2007. While some of the change that has been measured may be an artefact of the change in survey methodology between the *October Household Surveys* and the *Labour Force Surveys*, it is clear that the rise in female labour force participation was much higher than that for males.

Participation rates rose most dramatically for the less skilled, in spite of the lack of new job opportunities in less-skilled occupations. It is important to note that labour force participation rates are still relatively low when compared to other middle-income countries (OECD 2008); thus, South Africa's high unemployment rate is not simply a consequence of high participation rates. Moreover, participation rates can be expected to continue to climb gradually if employment opportunities expand and as average educational attainment continues to rise.

UNEMPLOYMENT REMAINS HIGH BUT HAS DECLINED SIGNIFICANTLY

While there is debate about the most appropriate measure of unemployment, even by the narrow (official) definition, about 23 per cent of the labour force was unemployed in September 2007 (see Table 2.1.1). At the time of the democratic transition, unemployment was substantially lower than it is today, with unemployment in 1995 running at 16 per cent according to the official definition. By 2001, unemployment had jumped to 30 per cent, but has shown a steady annual decline more recently.

The trends in the 'broad' unemployment rate (which includes the discouraged who want to work but do not actively search) are regarded as more meaningful by some (see, for example, Kingdon & Knight 2007). In 1995, the broad unemployment rate stood at 28 per cent. This grew to 42 per cent in 2002 and 2003 but had fallen to 36 per cent by 2007. The increase in the actual number of broadly unemployed is sobering, having increased from 4 million in 1995 to 7 million in 2007, after peaking at almost 9 million in 2003.

The sharp increase in unemployment in the 1990s was driven by the rapid rise in the supply of less-skilled labour, accompanied by a failure of labour demand to keep pace. The OECD (2008) calculates the loss of economic output created by unemployment as being in the order of US\$1 000 per capita per year.

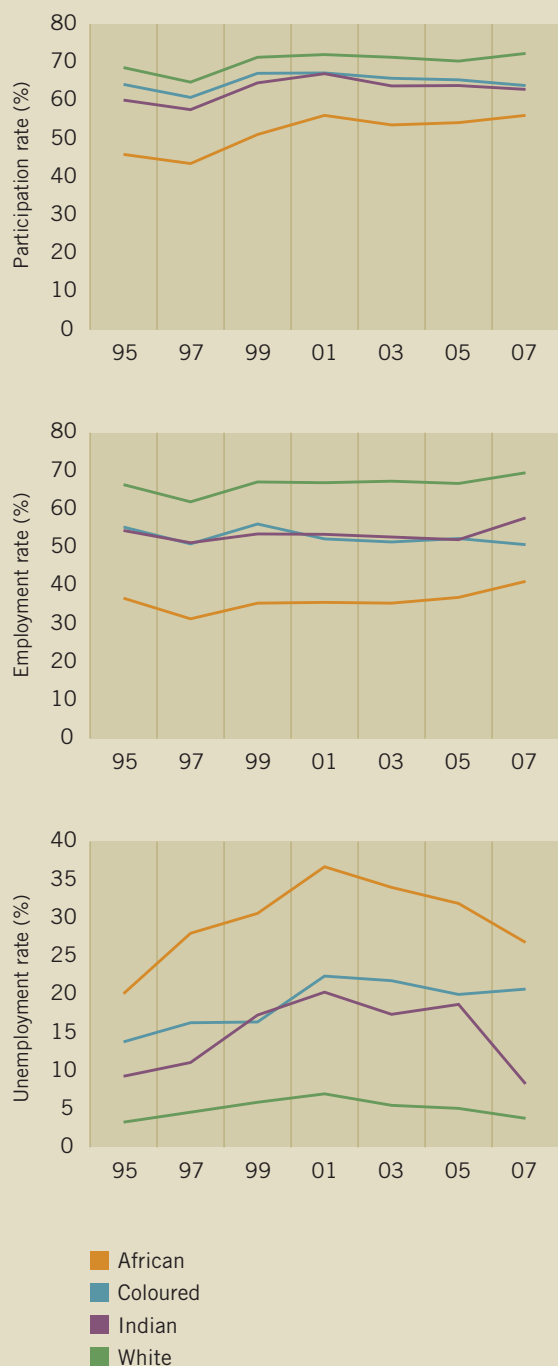
Figure 2.1.1 reveals a legacy of the apartheid era in that Africans have worse labour market outcomes than the other groups. The coloured and Indian groups have outcomes that lie between those of the African and white groups. In 1995, the labour force participation of Africans was only 45.9 per cent, their employment rate was 36.7 per cent and their unemployment rate was 20.1 per cent. All the other groups have participation rates above 60 per cent and unemployment rates that are substantially lower. The unemployment rate of coloureds was 13.8 per cent, of Indians 9.3 per cent and of whites 3.3 per cent. Since 1995, all groups have increased their labour market participation, but employment rates have lagged behind this increase. Indeed, the coloured group has experienced a decrease in its overall employment rate from 55 percent in 1995 to 51 per cent in 2007. Africans increased their participation rate by approxi-

Table 2.1.2: Participation, employment and unemployment rates using the official definition, 16–64-year-olds, by gender

Year	Male			Female		
	Participation	Employment	Unemployment	Participation	Employment	Unemployment
1995	62.1	54.5	12.3	41.1	43.7	20.5
1997	57.9	47.7	17.7	39.2	28.2	28.1
1999	63.3	50.2	20.7	48.1	33.8	29.7
2001	66.5	48.7	26.7	53.0	34.8	34.4
2003	64.2	47.7	25.6	50.3	34.2	31.9
2005	65.2	50.5	22.6	49.8	34.0	31.7
2007	66.3	53.1	19.9	51.5	38.1	26.1

Source: Authors' calculations based on Stats SA (1995, 1997, 1999, 2001, 2003, 2005, 2007)

Figure 2.1.1: Participation, employment and unemployment by race



Source: Authors' calculations based on Stats SA (1995, 1997, 1999, 2001, 2003, 2005, 2007)

Note: All statistics are for the population 16 to 64 years old

mately 10 percentage points from 1995 to 2007, but their employment rate rose by only 4 percentage points over the same period.

Recent labour market performance has been heartening, however, causing some to speculate that we have 'turned the corner'. Figure 2.1.1 shows that since unemployment peaked in 2001, it has decreased for all except the coloured group, for whom the very slight drop is not statistically significant.

Table 2.1.3 shows how participation and employment patterns have changed by age group. What is immediately clear is that youth unemployment is a major problem in South Africa. Over the period 1995–2007, youth unemployment grew significantly. It is apparent, though, that this was driven partly by a significant increase in participation rates among younger people. A higher unemployment rate among the youth is a worldwide phenomenon, but the magnitude of the problem in South Africa is cause for concern.

Recent labour market performance has been heartening, however, causing some to speculate that we have 'turned the corner'.

Banerjee et al. (2006) identify two reasons for high unemployment rates among young people: low outflows because searching is not very successful, and high inflows because, for example, high school drop-outs go directly into unemployment and are likely to remain there. Those between the ages of 16 and 24 years who are searching for a job are much more likely to transition into discouraged worker status than they are to obtain employment in either the formal or informal sector. One policy response to this situation could be for the government to incentivise firms to create special low-wage jobs for younger workers.

The ramifications of the unemployment problem are severe and wide-ranging. Achieving full employment (that is, a situation in which such unemployment as remains is only 'frictional' as the result of people transitioning between jobs) could add around US\$1 000 to GDP per capita, lift millions of South Africans out of poverty and significantly reduce the extreme level of income inequality that currently characterises the country (OECD 2008).

CHANGES IN WAGES

Fallon (in Woolard & Woolard 2007) shows that racial earnings disparities declined substantially between 1970

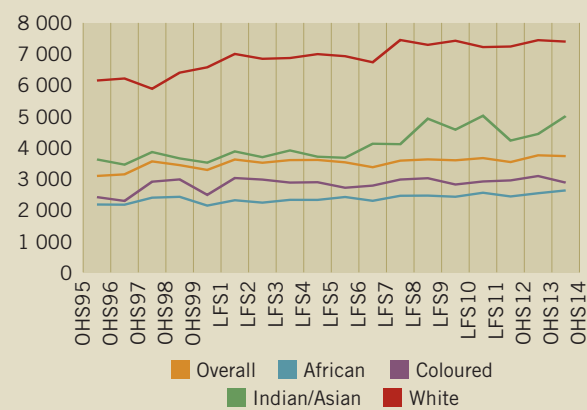
Table 2.1.3: Participation rates, unemployment and employment by age, 1995 and 2007

Age group	Participation	Employment	Unemployment
1995			
16–64	51.4	43.3	15.6
16–19	8.7	5.0	42.7
20–24	38.6	26.6	31.1
25–29	61.3	48.2	21.3
30–34	70.2	59.6	15.1
35–39	71.7	63.3	11.7
40–49	69.2	63.5	8.3
50–64	46.4	43.4	6.4
2007			
16–64	58.7	45.3	22.7
16–19	11.0	4.5	59.1
20–24	51.3	28.4	44.6
25–29	72.8	51.0	29.9
30–34	76.6	60.7	20.8
35–39	78.4	66.3	15.4
40–49	74.2	64.3	13.3
50–64	51.4	47.6	7.4

Source: Authors' calculations based on Stats SA (1995, 2007)

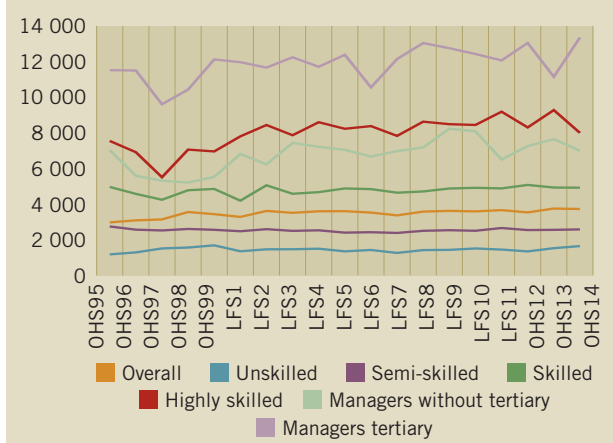
and 1990. Figure 2.1.2 shows that this rapid convergence did not continue indefinitely. Since the late 1990s, there has been little change in the average ratio of African to white wages. If we use only the *Labour Force Surveys* (which are not entirely comparable with the earlier *October Household Surveys*), the average ratio of African to white wages increased from 33 per cent in 2000 to 35 per cent in 2005. Africans continue to be over-represented in lower-skilled occupations where wages have grown more slowly than for higher-skilled categories. Figure 2.1.3 shows the average monthly wages of formal sector workers in different skills categories. The skills categories are based on the International Standard Classification of Occupations. Occupational group 1 (legislators, senior officials and managers, which we refer to using the shorthand term 'managers') cannot be mapped onto a skills category and is kept separate. We further

Figure 2.1.2: Average formal sector monthly earnings in constant 2000 prices by race, 1995–2005



Source: Authors' calculations based on Stats SA (1995–1999, 2000–2005)

Figure 2.1.3: Average formal sector monthly earnings in constant 2000 prices by skills level, 1995–200



Source: Authors' calculations based on Stats SA (1995–1999, 2000–2006a)

distinguish between managers with and without tertiary qualifications, since these are fundamentally different groups. Figure 2.1.3 shows the marked difference in wages between unskilled and skilled labour even within the formal economy. It also clearly demonstrates that there has been no convergence between the wages of lower versus higher skills categories since the mid-1990s.

Africans continue to be over-represented in lower-skilled occupations where wages have grown more slowly than for higher-skilled categories.

It is clear from Figures 2.1.2 and 2.1.3 that even if the developments in the 1980s and over the post-apartheid period removed the vestiges of formal wage discrimination by race, lingering differences by race in education and skills levels, and differences in the demand for labour by skills, continue to ensure stark racial differences in earnings.

Banerjee et al. (2006) note a rise in the return to education for those with education beyond Grade 12, and a decline in returns for those with Grade 12 or less. These patterns are consistent with an increase in the demand for skilled labour and with an increase in the supply of labour.

POVERTY AND THE LABOUR MARKET

Table 2.1.4 shows a series of key labour market rates by per capita expenditure quintiles. In the lower quintiles, participation rates are very low and unemployment rates are staggeringly high. Taken together, this implies extremely low rates of employment among the poor. The table further shows that the average worker in the top quintile earns 15 times as much as the average worker in the lowest quintile. Thus, the table powerfully demonstrates the relationship between household poverty and the labour market.

As members of a household tend to have levels of education similar to each other, and they all dwell in places that are well or badly located relative to regional labour markets, there tends to be a strong household pattern to unemployment. Table 2.1.5 shows that in 2006 slightly over 50 per cent of the unemployed lived in households where someone was employed, and 11 per cent of the unemployed lived in households that received remittances from an absent household member. This is related largely to the migrant labour system created by apartheid era restrictions on movement. Thus,

Table 2.1.4: Labour market characteristics by quintile

Quintile	Labour force participation rate	Unemployment rate	Adults that are working	Median individual monthly wage of the employed (2006 prices)
1st (bottom)	35%	72%	10%	R 300
2nd	39%	53%	19%	R600
3rd	49%	35%	32%	R900
4th	63%	17%	51%	R1 200
5th (top)	76%	7%	71%	R4 500

Source: Authors' calculations based on Stats SA (2006b)

Note: Quintiles contain equal numbers of individuals and are based on per capita expenditure¹

Table 2.1.5: Labour market connections of unemployed individuals ('000s), 1996 and 2006

Number of employed	1997 %	2006 %
<i>No-one employed, no remittances, no grants</i>	11.8	13.2
<i>No-one employed, no remittances, grants</i>	17.5	24.7
<i>No-one employed, remittances</i>	21.3	11.2
<i>1 employed</i>	35.8	39.4
<i>2–3 employed</i>	12.6	10.9
<i>4+ employed</i>	0.9	0.6
Total	100.0	100.0

Sources: Stats SA (1997, 2006b).

about 62 per cent of the unemployed are able to depend on labour income from a present (or absent) household member, and about 38 per cent of all unemployed live in households with no connection to the labour market whatsoever. However, for the unemployed, the disconnection from the labour market has increased over time; by way of comparison, in 1993 some 60 per cent of the unemployed lived in a household with a working member, 20 per cent in households with remittances, and only 20 per cent had no connection to the labour market (see Klasen & Woolard 2005).

Table 2.1.6 presents the household-level analysis, showing the distribution of the employed and unemployed among households. The table shows that, despite high unemployment, the majority of households (58 per cent) contain no

unemployed person.² Twenty-eight per cent of households contain one unemployed person, and 13 per cent contain 2 or 3 unemployed members, suggesting that these households are severely burdened by the presence of unemployed members. The table also shows that 24 per cent of households receive neither labour income nor remittances and, thus, are disconnected from the labour market. It is particularly worrying that about half of the households with 2 or more unemployed members belong to the category of households disconnected from the labour market. Trends over time show that the burden of unemployment has increased on many households. The share of households containing no unemployed persons has fallen from 70 per cent in 1993 (Klasen & Woolard 2005) to 57 per cent in 2006, and,

Table 2.1.6: The distribution of the unemployed by the labour market linkages of other household members

Number of employed	Number of unemployed				
	0	1	2–3	4+	Total
<i>No-one employed, no remittances, no grants</i>	3.0	4.0	1.6	0.2	8.8
<i>No-one employed, no remittances, grants</i>	6.8	4.3	4.1	0.5	15.7
<i>No-one employed, remittances</i>	3.1	3.3	1.5	0.1	8.0
<i>1 employed</i>	28.2	13.2	4.1	0.6	46.1
<i>2–3 employed</i>	16.0	3.0	1.5	0.2	20.5
<i>4+ employed</i>	0.6	0.2	0.1	0.0	0.9
Total	57.6	28.0	12.8	1.6	100.0

Source: Authors' calculations using Stats SA (2006a)

Table 2.1.7: Households reporting grants as their main source of income and those reporting any income from grants, by quintile

	Percentage of households with grants as main income source					Percentage of households with any income from grants					
Quintile	2002	2003	2004	2005	2006	1997	2002	2003	2004	2005	2006
1	16.1	16.9	21.4	39.6	47.7	15.9	32.0	31.7	40.2	47.7	69.4
2	31.4	36.1	44.0	49.5	51.0	54.0	55.8	50.9	71.2	73.3	69.9
3	31.1	34.0	42.2	38.1	34.5	46.7	51.6	53.2	67.1	69.1	69.4
4	18.1	19.5	16.7	14.3	16.0	33.8	33.2	34.8	35.8	40.1	45.4
5	4.4	4.2	3.5	2.8	2.5	14.0	11.3	7.9	8.8	10.0	12.0
Total	18.2	19.6	21.5	28.9	30.4	32.9	36.8	32.0	38.6	45.5	55.2

Source: Authors' calculations using Stats SA (1997, 2002, 2003, 2004, 2005, 2006b)

correspondingly, the shares of households with one, two, three or more unemployed have all increased significantly in that time period.

The two analyses suggest four findings. First, the unemployed are relatively widely distributed across households, certainly much more widely than in rich countries (Klasen & Woolard 2005). In the South African context, this is particularly surprising given that, due to racial differences in unemployment, white households (and, to a lesser extent, Indian households) are largely insulated from the burden of unemployment.³ This implies that among African households, the burden of unemployment is especially widely dispersed, with nearly 50 per cent of households accommodating at least one unemployed person, and quite a few more than one.

Secondly, the most important source of resources for the unemployed is the labour income of other household members, either directly from working household members or indirectly via remittances from absent household members.⁴

Thirdly, the burden of unemployment on the unemployed and the households hosting them has increased over time. The share of unemployed persons living in households with no connection to the labour market has increased markedly over time, as has the share of households containing an unemployed person.

Lastly, the burden is apportioned unequally. A minority of households, many of which have little connection to the labour market, house a majority of the unemployed and thus carry a disproportionate burden, while the majority of households are not affected.

How do the unemployed survive in households without labour market connections? Table 2.1.7 shows that the

majority of those households receive social grants. Thus, the public safety net complements the private safety net and plays a large role in the support of the unemployed, despite the fact that the direct beneficiaries of social assistance are the elderly, the disabled and children.

CHALLENGES

Given that employment is the main bridge between economic growth and higher living standards, a positive employment environment is the key requirement for sustainable social transformation in South Africa. The broad picture that emerges from this review of labour market trends is of an economy that is growing and in which jobs are being created, but from which a large segment of the population remains excluded.

Given that employment is the main bridge between economic growth and higher living standards, a positive employment environment is the key requirement for sustainable social transformation in South Africa.

While some things are known about the causes of South Africa's very high unemployment rates and what can be done about them, several conundrums remain. A prominent aspect of the unemployment problem in South Africa is the mismatch between unskilled job-seekers and skills-intensive jobs. Unemployment affects the less skilled disproportionately, while there is evidence of shortages of skilled labour. This tendency is far from unique to South Africa – worldwide

labour demand is shifting in favour of those with more skills, widening the wage gap between skills levels and resulting in a concentration of unemployment among the less skilled. However, the pattern is particularly marked in South Africa, and understanding why labour demand has evolved in such a skills-biased manner remains a key analytical challenge.

Achieving the government's goal of halving unemployment from 2004 levels requires creating jobs for about 2 million low-skilled individuals that are currently unemployed. This will require a substantial increase in the demand for unskilled labour (since a major reduction in the supply of such labour seems improbable). There is a range of policy options that merit serious consideration and debate. For example, strategies to assist the youth in obtaining their first job might include a wage subsidy, a search subsidy, reduced regulations for first jobs, and government employment. Policy responses to the constraint of the mismatch between where the unemployed live and where formal sector jobs exist might include transportation subsidies, housing policy and infrastructure investment. Policy responses to the constraint of the mismatch between the skills set of the unemployed and the skills required in the labour market might include educational reform, training programmes and training subsidies. All of these policy options require careful and urgent deliberation.

NOTES

- 1 In all tables that make use of quintiles or deciles from the *General Household Survey*, household expenditure is replaced with household wages plus household income from grants, if the latter exceeds the former. This is done because household expenditures are grossly under-reported in the *General Household Survey* (see Meth 2006).
- 2 Given the racial differences in unemployment rates and the near absence of interracial households, most white and Indian, and a large share of coloured, households fall in this group.
- 3 Ninety per cent of white and 75 per cent of Indian households did not contain an unemployed person in 2006.
- 4 As shown in Table 2.1.5, the role of remittances as a source of income has decreased over time, which is related to the slow dismantling of the legacy of apartheid-era spatial policies that previously had restricted access of non-working family members to urban areas.



briefing

DEMOGRAPHY AND THE LABOUR MARKET: RISKS AND OPPORTUNITIES

JP Landman

Unemployment remains a stubborn obstacle to the attainment of a South African society that is just, in both the political and economic sense of the word. Therefore, it merits its place as one of the top priorities on South Africa's national agenda. The current mismatch between the supply and demand of key skills calls for urgent intervention – particularly as it relates to our partly dysfunctional education system.

However, a single focus on policy tools alone to effect change in the labour market may overlook some of its less obvious determinants. One of the seldom-articulated dynamics is the development of the country's demographic profile, particularly over the past 13 years.

There is an apparent contradiction in the South African labour market, which can be explained adequately only by involving demography in the analysis. In the absence of such analysis, this contradiction has led to many a gross misdiagnosis in recent years of the actual state of employment creation.

WHAT HAS BEEN ACHIEVED

According to research by Haroon Bhorat (2004), a total of 9.5 million South Africans were employed in South Africa in October 1995. This included the formal and informal sectors, agricultural workers and domestic servants. Almost 13 years later, in June 2008, 13.7 million people were employed (Stats SA 2008). This means that 4.2 million jobs were created over almost 13 years. It must be noted

that this figure represents the net number of jobs created. While many sectors like gold mining and agriculture have shed jobs, others like telecommunications have created new jobs.

Vacancy rates suggest that we may even be undercounting this estimate. Vacancies are not measured in any formal way. The popular figure that is used by employment agencies, recruiters, political parties and the Minister of Finance is one million. Whatever the actual vacancy number, anecdotal evidence seems to suggest that it is certainly higher than it has been in the past. Increasingly, employers appear to have difficulty in filling posts and, by several accounts, this is the case despite substantial benefits being offered to prospective employees. The higher number of vacancies should be added to the 4.2 million jobs created to arrive at a true approximation of how many jobs the economy has created. Be that as it may, working with firm data, the change since 1995 is summarised in Table 2.2.1.

In a nutshell then, there were at least 44 per cent more jobs in the South African economy in June 2008 than there had been 13 years earlier. The economy was about 53 per cent bigger. These figures show a healthy relationship between economic growth and job creation, as measured by the employment co-efficient.

One cannot talk about 'jobless growth' if 4.2 million jobs have been created and the labour market has grown by 44 per cent.

The output-employment coefficient measures the relationship between economic growth and job creation, and answers the question of the extent to which the labour market grows if the economy grows. Over the last few years, it has been a healthy 0.8 (i.e. for every 1 per cent growth in the economy, the number of jobs grew by 0.8 per cent).

A word of caution is needed here. The employment co-efficient reflects a longer-term trend in the economy and

Table 2.2.1: Employment and size of the economy, 1995 and 2008

	Oct 1995	June 2008	Change
<i>Number employed</i>	9.5 million	13.7 million	+44% (or 4.2 million jobs)
<i>Size of the economy (GDP at year end) in constant 2000 prices</i>	R803 713 m (end of 1995)	R1 235 384 m (end of 2007)	+53%

Source: Bhorat (2004); Stats SA (2008); SARB (2008)

cannot necessarily be applied to short time series, like quarterly numbers. Thus, to question employment numbers because, in a particular quarter, the economy grew at say 4.5 per cent but employment did not grow by a corresponding magnitude would be a distortion of the use of the employment co-efficient.

These are respectable achievements. They clearly dispel the notion of 'jobless growth'. One cannot talk about 'jobless growth' if 4.2 million jobs have been created and the labour market has grown by 44 per cent.

Research from various sources indicates that there has been a definite skills bias in jobs created in South Africa (Bhorat, personal communication; National Treasury 2008). This has been caused by mechanisation driven by technology, capital deepening and the need to improve productivity. One consequence of this is that jobs created require rising levels of skill; consequently, semi-skilled and unskilled people are finding it much more difficult to enter the labour market. This runs completely contrary to the claim that only low-level jobs (e.g. casual positions in retail stores) have been created since 1994. Indeed, such jobs have been created, but the overall trend has been towards more skilled jobs.

THE CONTRADICTION

Despite these positive developments, the unemployment rate has remained unacceptably high. Why has this been the case?

Since the mid-1990s, unemployment rose constantly until 2003, when it peaked at 31.2 per cent. Five years later, in 2008, this figure had declined to 23.1 per cent – a movement of only about 8 per cent, as opposed to a 44 per cent growth in the number of jobs (Stats SA 2008; Presidency 2008). At first sight, these sets of statistics appear to constitute a clear anomaly – significant job growth without a concomitant level of decline in the unemployment rate. This contradiction can best be explained by looking at demography and the impact that demographic changes are having on the labour market.

The second major contradiction is that there are many vacancies in the economy, yet at the same time there are large numbers of unemployed people, some of them university graduates. The number of unemployed is estimated at slightly more than 4 million, while the number of vacancies is 'guestimated' at about one million (Stats SA 2008). On the one hand, employers complain about a skills shortage and, on the other hand, graduates struggle to find jobs. This contradiction speaks to the deficiencies of our education system and the mismatch between the skills

produced and skills required. It is a major issue, but falls beyond the scope of this article.

DEMOGRAPHY

This contradiction of respectable job growth and high unemployment can be understood a bit better if we consider the impact of demography on the labour market. This is especially true as it relates to the 'working-age' cohort of 15–64 years.

Population growth

Overall, the South African population grew by 16.8 per cent or 6.8 million people between 1996 and 2006. This translates into an average annual population growth rate for that period of about 1.6 per cent. Today, that growth rate has fallen to less than 1 per cent per annum – a remarkable reversal and largely the result of declining fertility.

Demography is shaped largely by three forces: fertility, mortality and migration. By far the most important one is fertility, which is measured as the number of children per woman. In 1970, South Africa's fertility rate was 5.8 children (Mostert et al. 1998). Today, that number has fallen to less than 3 children. The mid-year population forecast of 2006 puts the number at 2.73 children (Stats SA 2006c). The break-even point, where the population is neither growing nor shrinking, is generally put at 2.1 children per female.

Fertility is determined by a host of socio-economic and cultural factors, such as access to clinics and health professionals where advice and contraceptives are available, the extent to which women have access to the labour market and independent income and the degree of control they have over their lives. Social liberation tends to decrease fertility rates.

It is interesting to note that fertility in the rest of sub-Saharan Africa remains at about 5.5 children. This has resulted in a population growth rate for the region of more than 2.5 per cent per annum. Uganda, for example, will see its population increase twice over in the next 22 years because of high fertility and in spite of high HIV/AIDS prevalence. On current trends it is expected to have a population of 103 million people by 2050 (*Financial Times* 27.02.03).

Apart from fertility, demography is also shaped by mortality and migration. South Africa has high rates of mortality due to HIV/AIDS, malaria, tuberculosis and diabetes, amongst other causes. The country is also a net recipient of migrants, mainly from African countries (this aspect is discussed

Table 2.2.2: Employment absorption rate, 1995 and 2008

	Oct 1995	June 2008	Change
<i>Number employed</i>	9.5 million	13.7 million	+44% (or 4.2 million jobs)
<i>Number in 15–64 age cohort</i>	24 million	30.7 million	+28% (6.7 million people)

Source: Bhorat (2004); Census 1996; Stats SA (2008)

further below). Declining fertility and rising mortality tend to depress population growth, while a net gain in migration increases it.

Working age population

In South Africa, the age cohort 15–64 years is growing a bit quicker than the population as a whole. This increase was driven by a large number of births 15 and 20 years ago, and those people are now old enough to enter this age cohort. As most migrants also fall into this age category, increasing migration also tends to increase the numbers.

The age cohort 15–64 years amounted to 24 million people in 1996, according to that year's Census. Over the next 12 years, it grew by 28 per cent to 30.7 million in 2008 – an increase of 6.7 million people (Stats SA 2008). Thus, 6.7 million more people, as opposed to only 4.2 million more jobs. Although the time frames do not correspond perfectly, they are close enough to illustrate the trend. Thus, the economy created jobs, but not enough to keep pace with the strong growth in the age cohort 15–64 years. This begins to explain the uphill struggle to bring unemployment down.

It is the growth in this age cohort that explains the South African employment conundrum. An expanded picture emerges from Table 2.2.2.

Of course, not everybody in the age cohort 15–64 is economically active. Some are homemakers, others take care of family or do not have the mobility to reach workplaces, and still others study further and may enter the labour market at a later stage.

When we interrogate the economy's capacity to cater for those actively seeking work, we have to look at its absorption rate of those falling within the age cohort 15–64 years. In other words, what percentage of this group of job seekers actually manage to find employment in the formal economy?

The absorption rate differs from the unemployment rate, in that it measures the working-age population at large, and not just the economically active. It expresses the proportion of the working-age cohort that actually hold a job.

In September 1995, that figure came to 39 per cent. If one reflects on this statistic for a moment, the conclusions to be drawn from it are quite startling. The most obvious of these is that 61 per cent of working-age South Africans were not working. It could help to explain the existence of, and possible causal relationships between unemployment, our unacceptably high levels of crime (violent crime is a different issue) and a general lack of social capital over more than a decade and a half. Nevertheless, due to the acceleration in the number of jobs created, combined with a slowdown in population growth, the absorption rate of 39 per cent in 1995 moved up to 44.6 per cent in June 2008.

Contrary to popular belief, South Africa has made progress, thanks to consistent levels of robust economic growth and the commensurate job creation that has followed in its wake. However, even if the current 44.6 per cent absorption rate represents commendable progress, it is clear that more remains to be done.

The Harvard Panel, which was commissioned by the National Treasury to investigate the country's economic future, has observed that for developing countries like South Africa, the absorption rate should be much higher (Hausmann 2008). Simply by way of perspective, we should note that in developed economies, the absorption rate can be as high as 66 per cent (in the European Union) and 72 per cent (in the USA).

If we want to surmount our challenges within a reasonable period, the absorption rate needs to be increased. Thus, the way to alleviate unemployment in South Africa is to increase not only the number of jobs but also the proportion of people in the working-age group who are actually employed.

Slow-down in the working age population

This is where a 'demographic dividend' may help the fight against unemployment. By our calculations, the working-age population will probably increase by less than 10 per cent over the next six years, reaching 33 million by 2014. Therefore, to have 50 per cent of that age cohort employed in 2014 will require about 16.5 million jobs – that is, 20 per

Table 2.2.3: Employment forecast for 2014

	Oct 1995	June 2008	June 2014
<i>Number in age cohort 15–64</i>	9.5 million	13.7 million	15.7 million
<i>Number employed</i>	24 million	30.7 million	33 million
<i>Percentage employed</i>	39%	44.6%	47.6%

cent or about 2.8 million more jobs than we had in June 2008. Assuming an economic growth rate of 4.5 per cent and an output-employment coefficient of 0.7 over the next few years, this target can be achieved. In other words, we can push our absorption rate from 43 per cent in 2007 to 50 per cent in 2014.

However, should the growth rate be lower, fewer jobs will be created and the absorption percentages will also be lower. The forecast for 2014 in Table 2.2.3 is based on an economic growth rate of 3.1 per cent per annum and a growth in the age cohort 15–64 of about 1 per cent per annum.

The slowdown in population growth rate, thus, creates the opportunity to make a meaningful dent in the unemployment rate and to increase the proportion of the population that is working.

Importance of economic growth

If we want to reach that magical number of 50 per cent employed, it will require a growth rate of about 4.5 per cent. That can create another one million jobs for a total of 16.7 million people, which will lift the employment rate to 50 per cent. A 1 per cent slower rate of economic growth is ‘costing’ the country 1 million jobs. There is no real substitute for sustainable economic growth.

Naturally, due consideration must be given to equity and the distribution of such growth, but that falls beyond the scope of this article

THE BETTER YOU DO, THE MORE YOU HAVE TO DO

There is an irony in efforts to achieve a higher rate of employment. As more jobs are created, more people start to look for jobs, because they recognise the improved prospects of being successful at it. More people looking for jobs increases the demand for jobs and this becomes another reason why the unemployment rate remains high.

This irony is part and parcel of the cycle of development and progress. Growth creates more jobs, a greater percentage

of people want to work, more people are being employed, and so on, until the employment levels of developed economies like the EU or USA are reached. However, this is a multi-generation task and not one to be reached within the lifetime of one or more parliaments. At the present growth rate, for South Africa to complete this process and reach the employment levels of a developed country will take several generations of consistent performance.

At the present growth rate, for South Africa to complete this process and reach the employment levels of a developed country will take several generations of consistent performance.

REGIONAL DYNAMICS

The 2008 spate of xenophobic attacks highlighted another often-neglected aspect of the country’s demographic development and its impact on the labour market, and that is migration. Success in creating jobs will draw more people from elsewhere into our labour market. While it has been difficult to put an exact number on the levels of migration from the rest of the continent into the South African economy, we know that it has been substantial and that this influx, despite the xenophobic violence, will not subside.

Most demographers are reluctant to factor migration from elsewhere in Africa into our population figures, as there are too many uncertainties involved in measurement of the actual numbers and their impact upon the economy. Thus, a lack of appropriate data, which can be attributed primarily to the unregulated nature of migration in this part of the world, inhibits our ability to give a proper account of this critical variable. Answers to key questions, therefore, evade us.

Do migrants stay permanently or do they either go back to their countries of origin or move on to greener pastures? Or do they move to and fro between their home and destination countries? Can the same fertility assumptions be applied to migrants as to South African residents? This information vacuum has forced us into the realm of vague estimates.

One thing is certain, however: migrants are on the move. Globally, millions of people migrate every year, and this tide flows from poor countries and areas to rich countries and areas. In the developed world, growth plus declining fertility equals a gap in the labour market, which immigrants from the developing world fill. In the United Kingdom, Polish people do work that Britons shun. In the USA, Mexicans work in abattoirs and toilets. In Canada and the UK, professionals from developing countries form the backbone of primary health care services. It is estimated that the number of immigrants to rich countries more than doubled between 1970 and 2000, from 35 million to 81 million. The migrant share of the population in the developed world nearly doubled during the same period, from 4.3 per cent to 8.3 per cent (Legrain 2006).

In comparative terms, South Africa is a rich African country. It has a per capita income of more than US\$5 000 per annum, compared to less than US\$1 000 for most of its neighbours, and, for this reason, it is not surprising that global migration trends also seem to play themselves out in this country. SAMP (the Southern African Migration Project) found in a 2004 survey that foreigners made up 6 per cent of a sample population in South Africa (*Financial Mail* 16.02.07). That would mean some 3 million people. While surveys such as these may not be the most accurate instruments to ascertain the number of migrants active in an economy, they do provide a better pointer than reckless speculation.

So, like the UK and the USA, we have an influx of migrants looking for jobs. The difference is that we also have millions of unemployed South Africans competing for the same jobs. There is some evidence that immigrants often create jobs, or at least create their own income by setting up small businesses (like the Somali traders who were targeted in recent attacks), but the fact remains that immigrants mean more people looking for work.

PROSPECTS: RISKS AND OPPORTUNITIES

As suggested, not all labour market outcomes can be addressed directly by policy. Nevertheless, it is important to consider which policy tools and mechanisms are at our disposal, and how they can be optimised to bring about the desired outcomes. What can the country do to change the

unemployment picture significantly over the next decade? It may be worthwhile here to look at the two significant responses to this question to date.

Public Works Programmes

Many have placed their faith in a bigger or more extended public works scheme to bring down unemployment. Evidence thus far from the Expanded Public Works Programme (EPWP), which was launched in 2004, should caution against excessive optimism, and highlights the need for a more in depth analysis of its outcomes.

Judged simply by the goals that were set at its inception, the EPWP is a success. Now in its fourth fiscal year, the project aimed to create 1 million 'temporary work opportunities' within five years. Towards the end of year 4 (2007/08), a total of 953 570 opportunities had been created – 95 per cent of the total. There is little to suggest that it will not exceed its 1 million target within the original time frame. Added achievements include the fact that 48 per cent of beneficiaries were women and 37 per cent were youth (Presidency 2008).

However, if one looks at the geographical distribution of its success, it is apparent from the 2008 Development Indicators that a disproportionate number of the opportunities (305 000) were created in KwaZulu-Natal. The other eight provinces shared the remaining two-thirds. The Eastern Cape was second, with about 126 000 opportunities, Gauteng third, with just below 126 000, and the Western Cape fourth, with about 110 000. In total, these four provinces created 70% of the public works opportunities (Presidency 2008).

The strong performance of KwaZulu-Natal in creating considerably more work opportunities than the other provinces is put down to the institutional capacity of the public works departments in both the province and the eThekweni municipality.

While such jobs, wherever they are created, should be welcomed, it must be emphasised that these 'temporary work opportunities' are not jobs in the normal economic sense of the word. They are temporary and of a fairly short duration. Research done by the Human Sciences Research Council (HSRC 2007) indicates that they translate into the equivalent of about one-third of full-time jobs. This should not come as a surprise; the EPWP targets the 'unskilled, marginalised unemployed' and does not claim to create sustainable jobs. As such, its primary values lies in poverty alleviation and the creation of opportunities for people to acquire skills. Real job opportunities can only emerge from growth and a bigger economy. This, in turn, would be

impossible without a reasonable degree of productivity. Public works programmes are not known for this and, therefore, are arguably little more than a stopgap measure.

The HSRC researchers also found that the EPWP reached just over 7 per cent of unemployed people in South Africa. Thus, even if the programme were doubled in size, its contribution would still be marginal.

However, given the large number of unskilled and semi-skilled people in South Africa who need jobs, and the fact that the jobs that have been created have a distinct skills bias to them, public works programmes aimed at the unskilled, marginalised and unemployed are a mechanism that provides some assistance. For this reason, plans to expand the programme further can only be supported; but its limitations must be acknowledged.

Public sector employment

In recent years, public debate around the requirements for the creation of a developmental state has given increasing primacy to the state's role as a central driver of the country's economic fortunes. Not surprisingly, several of those that have participated in this debate have called on the state to alleviate unemployment by employing more citizens in the civil service. This approach may be misplaced for two reasons.

Firstly, there is no doubt that South Africa's civil service will need to expand to perform its core functions. There is a need for more police officers, forensic experts, health personnel (especially in rural areas), and science and maths teachers, to name a few. However, job creation cannot be the sole rationale for such an expansion. Its primary responsibility, like that of any other civil service, should be the efficient performance of those core functions that one would normally associate with the state. Moreover, before it can expand, the public sector must first address an already high vacancy rate, particularly at the middle and senior management levels, which has hollowed out the capacity of several institutions to perform the functions they are supposed to deliver. This will cost money.

Secondly, and related to the previous point, such appointments have far-reaching cost implications. Compared to global standards, South Africa underpays many of its civil servants. For this reason, we find South African nurses moving to the UK, teachers moving to Australia and Canada and police officers joining other law enforcement agencies across the world. To counter this leakage, local salaries will have to rise.

If South Africa wants to turn around this trend, the country would do better by directing available public sector

resources towards proper staffing and improved salary levels. Arguably, the objective of building a modern and efficient civil service, rather than the creation of artificial employment, might bring us closer to the capacity that one would associate with a developmental state.

Economic growth

Ultimately, the most potent weapon South Africa has to beat unemployment, and roll back poverty at the same time, remains economic growth. No other policy can have as big an impact as consistent and sustainable economic growth. Growth, however, requires a strong political will and focus. Successful economic growth is a process of discovering what works, sticking with it, avoiding that which does not work, and making consistent efforts to remove bottlenecks in the economy. Now that South Africa has achieved macroeconomic stability, at huge costs and effort, there are no quick fixes remaining.

There is no reason why South Africa cannot achieve a sustainable growth rate of 4.5 per cent per annum, but it will not happen automatically. We will have to apply our minds and do the hard and unglamorous work, which requires persistence and concentrated energy. It is much easier to pontificate about inflation targeting and interest rates than to fix the electricity distribution system, much easier to complain about a budget surplus than to spend the available budget on road maintenance.

Growth in the end is a political responsibility. Easy interest rates or loose fiscal policy on their own cannot bring about sustainable higher growth. Instead, hard work needs to go into breaking the structural constraints that impede higher growth rates. This kind of work demands a sophisticated and highly committed kind of bureaucrat who sees his or her role as that of an enabler and not just a mindless regulator.

Civil servants will need to have the courage to confront the real challenges head on. This requires a recognition that contemporary economic thinking has moved on from issues of macroeconomic stability (which is now taken for granted by virtually all sides of the economic spectrum) to the much more complicated challenge of removing obstacles to growth. Bottlenecks in the economy have to be identified and alleviated. If, for example, skills are a bottleneck, we should focus on ways to increase skills in the short, medium and long term, and dedicated programmes with measurable objectives should be devised to address the challenge. The same applies to the other constraints, such as infrastructure, crime and the lack of social capital, that are impeding growth.

Demography: a historic opportunity

South Africa's demographic development gives it a unique opportunity to reduce unemployment considerably and increase the proportion of people working. However, the precondition for grasping this opportunity will be that we keep our sights set on the goal of economic growth. If we neglect economic growth, or worse, do things that undermine growth, job creation will not happen and unemployment will not be driven down.



analysis

THE VISIBLE HAND OF DEVELOPMENT: INDUSTRIAL POLICY AND IMPLICATIONS FOR JOB CREATION

Oupa Bodibe

INTRODUCTION

Industrialisation – the process of changing from low to high value-adding activities – is a contentious subject in development studies, mainly because it invariably involves some form of state intervention. Neo-liberals object to state intervention in the economy, in principle, because such ‘meddling’ is distortion, deleterious and often fails. State intervention should be limited to providing certain public goods, and enforcing and protecting property rights. For the alternative perspective, which encompasses a broad range of theories from Keynesian to Marxist, state involvement is an article of faith, because market or private actors cannot be relied upon to co-ordinate and drive a major effort such as industrialisation. However, there are many development models, which have crystallised into two broad approaches – a model in which the state seeks to replace the private sector as producer, and a model where the state aids the market in the process of ‘self-discovery’, innovation and learning. It is broadly accepted, however, that development is not a spontaneous process but requires some conscious effort.

The industrialisation debate in South Africa is no less controversial for the same reasons. The release of the National Industrial Policy Framework (NIPF) and the Industrial Policy Implementation Plan (IPAP) was a seminal moment in post-apartheid South Africa. It was a major milestone in a decade-long debate on industrialisation policy tempered by various policy pronouncements by the government and civil society action, notably strike action by trade unions. By no means does it constitute the end of the debate, but it does change the terms of the debate from a question of necessity to one of design and effect. In a way, it closes a lengthy discussion about whether industrialisation policy is necessary or whether society should rely on the entrepreneurial spirit of self-seeking individuals and markets.

The aim of this article is threefold. Firstly, the main thrust is to evaluate the NIPF and IPAP as means to reduce unemployment or meet the Accelerated and Shared Growth

Initiative for South Africa (ASGISA) target of halving unemployment and poverty. To understand the significance of the policy, it is important to appreciate theories of development, as well as the performance of the post-apartheid economy. Therefore, the second and third aims of the article are to offer a broad overview of different approaches to industrialisation and to map the trajectory of post-apartheid economic structure and performance.

The global and domestic context frames the possibility of failure or success of the industrialisation strategy. At the global level, South Africa is squeezed between low-cost countries such as China and India, which compete on labour-intensive products, and, at the other end of the spectrum, the high-tech knowledge-driven industries located in the North. The relative distance away from global markets and the intense competition from other developing countries impose constraints on South Africa. This is potentially offset by the dynamism of the South African economy relative to the rest of Africa, and pockets of home-grown technology, such as in mining.

At the global level, South Africa is squeezed between low-cost countries such as China and India, which compete on labour-intensive products, and, at the other end of the spectrum, the high-tech knowledge-driven industries located in the North.

Due to high inequality, poverty and unemployment, South Africa’s comparatively small domestic market is an additional constraining factor that should be taken into account. Dependency on minerals as a key driver of the economy is also very risky because of the volatility of commodity prices.

On the plus side is the fact that South Africa has a fairly diversified economy, with niches of excellence (for example, a well-developed financial system), a manufacturing base (albeit small in relative terms), and so forth. South Africa’s prowess is reflected in the fact that it accounts for more than 40 per cent of sub-Saharan African GDP.

The first section of this article recounts theoretical approaches to industrial development. This is followed by a discussion of the post-apartheid industrial policy discourse and performance. The final section analyses the NIPF and IPAP from an employment perspective.

INDUSTRIAL POLICY: CHALLENGING COMMON MYTHS

This section summarises key debates and theories on industrial policy. Its main thrust is to challenge common myths surrounding the development process of the developed and newly industrialised countries. Such an exercise is useful to draw lessons for South Africa as it grapples with economic transformation in the 21st century. South Africa cannot, however, mechanically transpose foreign models without taking into account the historical, economic and social milieu that shaped the development strategies of these countries. It is perhaps necessary to start with a definition of industrial policy to frame the discussion. Ferguson and Ferguson (1994: 137) define industrial policy as 'relating to those policies whose main direct effect is upon individual firms and industries, or on industry as a whole'. Alternatively, industrial policy can be defined as:

a set of policies that favour the development of certain industries or sectors over others with a view to enhancing national economic welfare in the long run. This may be accomplished through a range of policies, such as trade subsidies; licences; and the management of credit and capital allocation, prices and investment. (Chang & Grabel 2004: 69)

A common thread in the two definitions is the fact that industrial policy is a deliberate and conscious effort, rather than the unconscious operation of the market. As such, it inexorably involves political or state intervention to direct, stimulate and support industrial development over the course of economic development. The economic rationale for government intervention is often based on the argument that it can improve economic welfare and correct market failure. Markets fail to produce socially optimal levels of output under five conditions, namely 'monopoly; public goods, such as defences; externalities, such as pollution or congestion; common property rights; and difference between private and social time preference rates' (Ferguson & Ferguson 1994: 139).

Many scholars, Chang (2005), Wade (2008), Shaik (2003) and Amsden (2001), to cite a few, challenge the neo-liberal notion that developed countries achieved economic transformation via free trade and free markets. These scholars cogently show that developed countries and newly industrialised countries intervened heavily in the earlier development process and only in later stages did they liberalise trade, never fully abandoning state intervention in the economy. In many developed and newly industrialised

countries infant industries were heavily protected and supported until they could be internationally competitive.

According to the neo-liberal perspective, the best trade policy is free trade, that is trade not impeded by tariffs or other types of government regulation. The case for free trade is based on the theory of comparative advantage, which holds that a country, free of trade restrictions, will specialise in the production and export of those goods for which it is best suited given its resource endowments. Therefore, a country will be more effective in producing the goods in which it has comparative advantage. Developed countries, it is believed, achieved high levels of economic development and prosperity via free trade.

In so far as the neo-liberal theory tolerates tariffs, these should be set at a low and uniform level across products. Protection, even for infant industries, should be temporary, and tariffs should range between 5 and 10 per cent and not exceed 20 per cent. Universal trade liberalisation in the 1980s is held out as a repudiation of import-substitution industrialisation (ISI) or active industrial policy. To the extent that trade liberalisation entails costs, it is argued that such costs are short-term in nature and would be offset in the long run. For example, job losses due to company closures are a temporary adjustment cost and the displaced workers are likely to be reabsorbed in other sectors.

Neo-liberal theory is opposed to state intervention in allocating resources by supporting particular industries. The market is regarded as being more efficient than the state in optimally allocating resources. State intervention is accepted only in limited cases of market failure, protecting property rights and enforcing contracts. Industrial policy should be of a general rather than selective type to provide public goods like research and development, infrastructure and basic education.

The arguments put forward by neo-liberal theory have been extensively critiqued on theoretical, historical and empirical grounds (see, for instance, Chang 2005). The take-home point is that neo-liberal theory does not offer an accurate depiction of the development process in advanced capitalist societies and the late industrialisers like Japan and Korea. Moreover, it offers very little explanation of how developing societies should upgrade into high value added manufacturing.

South Africa has to chart its unique path to industrialisation, as it cannot mechanically transpose international experience. The industrial policy paradigm arose mostly in countries where growth was based on agriculture (not mining), with relatively equitable access to land and education. Further, it was based on expansion in export of manufac-

tured goods, creating employment on a large scale, supported by long-run depreciation of the currency and favourable market access during the Cold War. Thus, South Africa's challenges and context are wholly different to the economic and social structure under which South Korea, for example, launched its industrialisation.

SOUTH AFRICA'S STRUCTURAL PROBLEM AND CHALLENGES FOR INDUSTRIAL POLICY

The structural challenge

South Africa confronts a serious challenge of mass structural unemployment and high levels of concentration that reflect the underlying economic structure. From the late 1970s to around 2000, growth was predominantly in capital-intensive industries. This is reflected in reliance on mining-based exports, which shifted from the late 1980s from gold to platinum and base metals, at the cost of employment. Mining employment is very much lower than it was in the late 1970s and mid-1980s. Consistent with capital-intensive growth, South Africa experienced growth in smelting, heavy chemicals (SASOL), automobiles and large-scale electricity. Agriculture and light manufacturing (food, clothing and furniture) declined constantly during this period. Since then, the basic structure of accumulation has not changed fundamentally (see COSATU 2005, 2006).

After 2000, South Africa experienced booming commodity prices based on structural change in the world economy, for example demand from China and India. This encouraged capital flows and, in the context of low nominal interest rates, high consumer spending. The rand appreciated under these conditions, making it difficult to sustain an export-oriented growth trajectory. The consequence of these developments has been growth in the current account deficit, in the context of stagnant manufacturing. The rapid inflow of capital (especially short-term speculative capital) plus the sharp rise in commodity prices produced a 'double-Dutch' scenario for South Africa – currency appreciation in the context of rapid capital inflows and investment in commodities due to the increased prices.

South Africa has realised rapid employment growth concentrated in retail, construction and lower-level services (especially security). All of these sectors are highly cyclical and cannot dynamically lead employment creation. How should we interpret South Africa's performance since the year 2000? One school of thought contends that South Africa has transcended dependence on minerals and is now a service economy. Evidence for this structural shift is the large share of GDP and employment in the service sector

compared to mining. However, the notion that South Africa has transformed into a service economy is challenged on several grounds (see Mohamed & Roberts 2006).

South Africa confronts a serious challenge of mass structural unemployment and high levels of concentration that reflect the underlying economic structure.

First, minerals, if base metals are added to the export figures, still constitute well over 60 per cent of our exports. Second, the service economy story does not stand up to scrutiny. Much of the services value-addition is in the telecommunications sector (which has shed employment), followed by financial services. Employment growth is concentrated in business services, wholesale and retail, rather than in finance and insurance. Business services include a variety of sub-sectors, from cleaning to security. Most of the new jobs are of poor quality, relative to the stable employment displaced in mining and manufacturing, because they are badly paid and casual or temporary. Indeed, the increased number of jobs in services may be as a result of the classification of jobs that migrated from other sectors like manufacturing due to outsourcing.

Industrial policy has focused on relatively high-tech enterprises (lead sectors in IPAP constitute under 8 per cent of formal employment and 2.5 per cent of informal employment). Industrial subsidies, if they may be called that, focused on the automobile industry. The thrust of industrial policy after 1994 focused less on structural transformation and more on supply-side measures, trade liberalisation and, to a limited extent, infrastructure. Macroeconomic policy was geared toward stabilisation to reduce the government deficit and inflation. Gqubule (2008) argues that the orientation of macroeconomic policy severely undermined industrialisation by raising the cost of capital, especially for small businesses. The Presidency's international panel of advisors, the Harvard Group, also raised concern that the exchange rate undermines efforts towards export-led growth.

Viable employment creation strategies

What then would be a viable employment-creation strategy for South Africa? In a situation where high commodity prices make it difficult to depreciate the currency, two options are available. The first would be to identify viable labour-intensive industries that can grow despite the high rand, for instance

agro-processing and forestry, some services, and light manufacturing for domestic and regional use. The second option is to offset the high rand by ensuring efficient infrastructure and administrative systems and by improving skills levels for the core economy. Still, prioritising employment means we need a vision of how all the main economic sectors can contribute to sustainable employment creation, even if it is indirect, as in the case of mining.

Agriculture is crucial for employment, stabilising food prices and exports. An agricultural strategy is important to link land reform/redistribution to economic development. The agricultural value chain is also highly labour-intensive and can contribute to creating employment for low-skilled workers.

Private services (security, hairdressing, tourism, culture, information technology, finance and health) have greater potential to support employment creation. Many of these activities (for example, hairdressing) are labour intensive and currently occur in the informal sector. In addition, they can form part of a livelihood strategy especially for unemployed young people and women.

Public services, normally ignored in employment creation strategies, can also make a significant contribution to direct employment creation. For example, South Africa faces a chronic shortage of teachers, nurses and auxiliary staff, and investing in training for these occupations can open up employment opportunities.

Sectors that cannot contribute directly to employment creation can also play a significant role. Mining, for example, is a key earner of foreign exchange and can stimulate job growth in supplier industries. Similarly, knowledge-based industries like pharmaceuticals can stimulate employment in other industries. The bottlenecks facing these industries, such as economic infrastructure and skills, have to be addressed to support the development of these sectors. In other words, it is not wise to act as if these sectors are less important. The absence of a vision for mining is a major gap in industrial policy.

The key obstacles to restructuring the economy include path dependency in the economy and in the state. In this regard, the industrial policy framework does not adequately address these institutional challenges. The conditions for new activities to thrive include identification of viable markets' access to capital (including land and water), skills, infrastructure and supportive government systems (such as standards and qualifications). However, the government is not structured in such a way as to bring about a coherent redirection of the economy.

WILL NIPF AND IPAP DELIVER JOBS?

The vision of the industrial policy framework includes the objective of diversifying the economy beyond its current reliance on traditional commodities and non-tradeable services. Key strategies include a process of self-discovery through sector job summits, industrial financing, trade policy, and skills and education. Broadly, the policy framework aims to achieve the ASGISA target of reducing poverty and unemployment by half by 2014.

At an institutional level, the policy framework recognises the imperative of harmonising the government system across departments and spheres. However, the government has stopped short of creating an institution with the authority, capacity and resources to ensure the necessary transformation in the government system. Rather, it has opted for the continuation of the current cluster system to address government-wide planning, co-ordination and implementation.

The central question to pose is whether the policy framework supports and/or reorients the policy focus sufficiently towards employment creation. As highlighted above, the priority sectors constitute roughly 8 per cent of formal employment. Furthermore, the priority sectors, bar forestry, are mostly capital intensive in nature, thus limiting their direct employment-generating capacity. Measured against the scale of the challenge to reduce unemployment significantly, the policy framework sets modest goals for industry.

In addition, the policy framework identifies several constraints that hinder industrialisation, but falls short of adequate solutions to address these constraints. For example, there is recognition that volatile and unstable exchange rates constitute a hindrance to a successful export strategy, but there is no coherent proposal to remove this blockage. In fact, the industrial policy framework fails to confront the constraints imposed on industrialisation by macroeconomic stabilisation, including high real interest rates. This is one of the missed opportunities to align macroeconomic policy with the objective of employment creation and industrialisation. In this respect, industrial policy will not lead to a sea change in the government policy framework.

The challenge going forward is to take on board some of the issues raised earlier. These include identifying and supporting sectors with the potential to increase employment, and defining a policy for sectors like mining that can still make an indirect contribution to employment generation. Despite its limitations, the industrial policy framework offers an important platform to recast the debate, however.

CONCLUSION

The adoption of the industrial policy framework was an important milestone in the evolution of post-apartheid industrial policy. The principal question is whether the policy will lead to industrialisation and deal with the entrenched unemployment problem. Even the government's optimistic scenario suggests that unemployment will be halved by 2014, two decades after the 1994 democratic breakthrough.

Halving unemployment depends on two important factors. Firstly, the rate of employment creation and labour absorption must increase faster than the number of job seekers. It is in this context that South Africa has to increase the tempo of job growth in manufacturing and services that have the capacity to absorb low-skilled workers. The role of the public sector in direct and indirect employment creation should also be taken into account.

Secondly, halving unemployment depends on increased absorption of job seekers. Job losses in the 1990s, and an increase in the number of job seekers fuelled the unemployment crisis. The economy has not absorbed workers retrenched from mining, agriculture and some manufacturing sectors. Simultaneously, the country has faced an increase in labour supply, especially from African women (a growing number moving from the rural areas into the cities).

A third challenge arises from the apartheid geography. More than 40 per cent of South Africans still live in the rural, or what is described as rural, areas. In this regard, agrarian reform and transformation can play an important role in unlocking income-generating activities, including promoting employment. The major difficulty is access to arable lands, markets and adequate support in the form of extension services, skills and infrastructure. If South Africa fails to encourage economic activities in these areas, it goes without saying that this will push people to the cities in search of employment opportunities. In the current scenario of low job growth, this will serve only to worsen urban unemployment and its attendant problems of social dislocation.

The employment challenge, therefore, remains one of the key yardsticks by which to measure the success of the industrial policy framework. In the main, the framework seeks to promote non-traditional tradeable sectors, especially manufacturing and services that can compete in export and against imports. Manufacturing and services have the greatest capacity to absorb low-skilled labour and should be assiduously promoted.





Chapter three

Education and skills

“The specific policy challenge in South Africa is less one of enrolment and more one of retention, achievement and completion on schedule for age, especially completion of lower secondary schooling.”

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overview

EDUCATION AND SKILLS

Shireen Motala revisits questions of access and quality through a framework devised by the Consortium for Research on Educational Access, Transitions and Equity (CREATE), which concentrates on educational access for children between the ages of 5 and 15 years in Bangladesh, Ghana, India and South Africa. She suggests that while government policy since 1994 has emphasised equity in terms of access, closer attention should be paid to those learners who reside in the most vulnerable communities. Based on conclusive research showing that the education of children from underprivileged backgrounds typically demands more resources than would be the case for children from more affluent backgrounds, she contends that a more targeted pro-poor policy should address the impact of great socio-economic inequality.

In recent years, the government has shown increasing interest in the concept of early childhood development (ECD) as a means to address the significant cognitive disadvantages with which many children from disadvantaged backgrounds enter the education system. Linda Biersteker, in her contribution on ECD, sheds light on the development of policy and legislation within this sphere in recent years. She is optimistic about the current prospects for improved ECD outputs, given the privileged position that ECD currently enjoys on the national policy agenda. Yet, in order to ensure that ECD's progress remains quantifiable, it is of great importance that its efficiency should be monitored with accuracy. At present, the availability of relevant and longitudinal data is an impediment in this regard.

Since schooling is an inherently social process, Russell Wildeman contends that more empirical research should be directed at the quality of social ties within educational institutions. He employs the concept of relational trust to highlight the pivotal importance of strong interdependent linkages between parents, teachers, a school's administrative leadership, and each of these constituencies amongst themselves. Such a model, he argues, is particularly suited for contexts where institutions operate in a turbulent external environment, depend on information-sharing for their success, and have decentralised decision-making structures. However, Wildeman notes that due to the various cross-cutting cleavages in our society, such a relationship model has been largely absent within our schooling system, but should be pursued as a desirable outcome in our context.

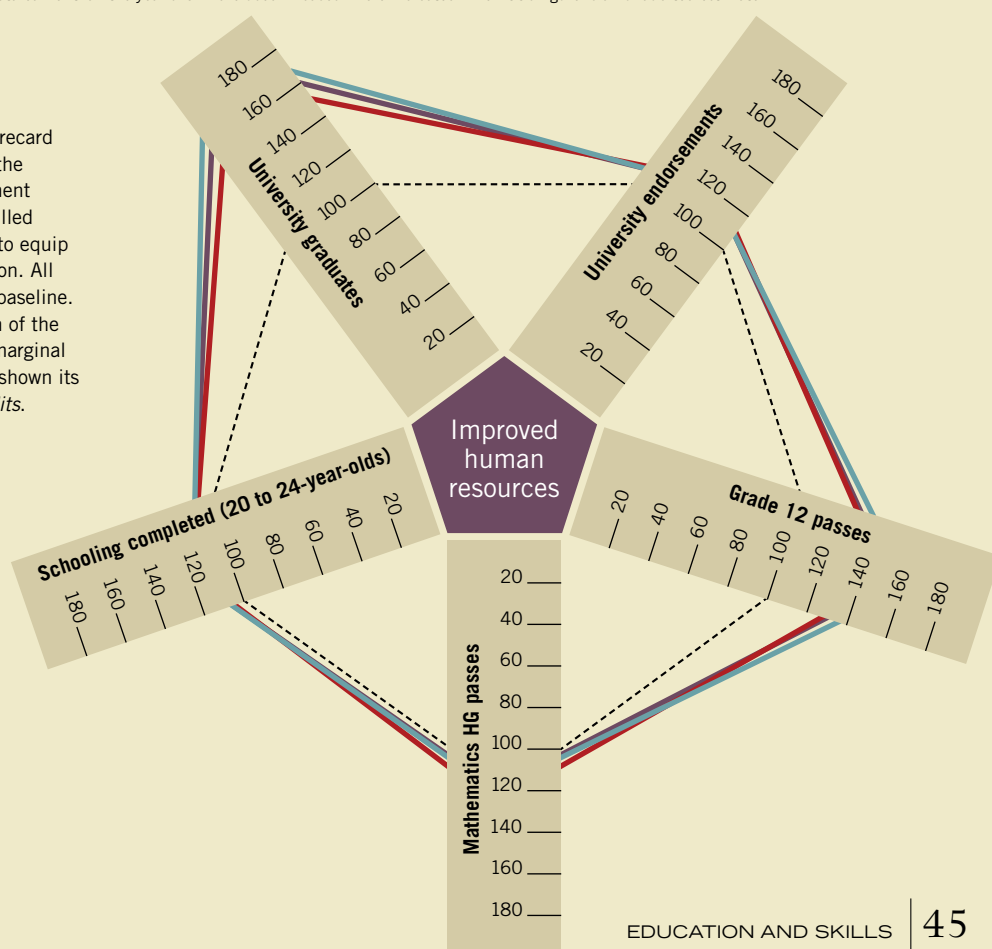
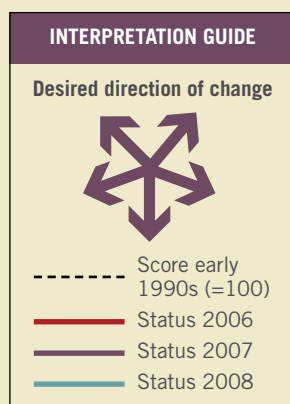
Education and skills development scorecard

Transformation goal: A human resources development system that produces an employable labour force and provides the necessary scarce skills to sustain economic growth						
Desired outcome	Indicator	Status 1990–1994	Status 2006	Status 2007	Status 2008	Positive development
Providing scarce skills to grow the economy	Maths HG passes as percentage of cohort	2.7% 22 300	2.7% 26 383	2.6% 25 217	2.6% 25 509	↑
	Grade 12 passes as percentage of cohort	33.2% 271 098	30% 347 184	36.0% 351 503	37.4% 368 217	↑
	University endorsements	78 713	86 531	85 930	85 454	↓
	University graduates*	46 688	70 149 (2004)	74 689 (2005)	77 980 (2006)	↑
Employable labour force	Average years of schooling successfully completed in the 20 to 24-year-old cohort	9.66	10.15	10.23	10.27	↑

Sources: Department of Education, various databases; and Statistics South Africa, *October Household Surveys & Labour Force Surveys*, various years

Note: * This includes degrees conferred by universities of technology and distance education institutions. For comparability purposes, degrees conferred by former technikons are included in the older data. Due to delays in data availability, data earlier than the year shown are used in cases where indicated. The 2006 figure is an unaudited estimate.

The Education and Skills Development Scorecard and Star provide a snapshot impression of the ability of the education and skills development system to produce enough appropriately skilled workers for growth and transformation and to equip individual learners for economic participation. All scores show an improvement on the 1990 baseline. All measurement scores, with the exception of the number of university endorsements, show marginal improvements. The score for the latter has shown its second consecutive drop in successive *Audits*.



research

MEANINGFUL ACCESS TO EDUCATION IN SOUTH AFRICA

Shireen Motala

INTRODUCTION

Access to education is central in development strategies linked to the Millennium Development Goals (MDGs) and the Dakar Framework for Action associated with Education for All (EFA). The framework of post-apartheid legislation embodies South Africa's commitment to these principles, and the right to basic education is enshrined in the Constitution. The South African case differs from a number of other developing countries with near universal access to education until the end of primary schooling.

Using the conceptual framework on access developed by the Consortium for Research on Educational Access, Transitions and Equity (CREATE), this article explores whether expanded access has provided learners with equal experience of, or access to, quality education. CREATE is concerned with understanding educational access for children between the ages of 5 and 15 years in four countries: Bangladesh, Ghana, India and South Africa.

CREATE understands educational access more broadly than simple physical access to school. True access includes equitable access to education that is meaningful. Meaningful

access to education requires more than full enrolment; it requires high attendance rates, progression through grades with little or no repetition, and learning outcomes that confirm that basic skills are being mastered. Education adds more value to people's lives when their freedom to choose is enhanced by meaningful access.

Educational access is examined in this article in terms of a model that describes seven zones of exclusion. The zones are applied to the South African context in the following way. Zone 0 is Grade R, the (as yet non-compulsory) entry point into the schooling system for learners aged 5 years (or turning 5 before the end of June). Zone 1 includes children who have never gone to school. Zone 2 includes those who drop out before the end of primary education (Grade 7), and Zone 3 contains learners who are at risk of dropping out in this same period. Zone 4 is the transition between Grades 7 and 8, or between primary and secondary school. Zone 5 contains those learners who drop out of Grades 8 or 9, and Zone 6 refers to young people of any age who are at risk of exclusion in these two years of lower secondary school.

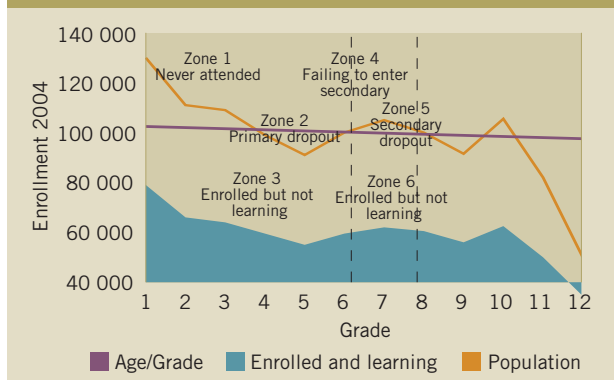
Meaningful access to education requires more than full enrolment; it requires high attendance rates, progression through grades with little or no repetition, and learning outcomes that confirm that basic skills are being mastered.

Table 3.1.1 provides information on the zones, and Figure 3.1.1 maps the zones in the South African context. In South Africa, there are very few children who have never been to school (Zone 1). Many younger children are enrolled in school (Zone 2) but, as Zone 3 shows, they are vulnerable to silent exclusion or drop-out, because of the absence of meaningful access and learning. Zone 4 indicates that transition from primary to secondary schooling does take place, with the majority of learners entering secondary school. Zone 5 shows that in the junior secondary phase, which is still part of the compulsory education system, most children are still in school, but there is limited drop-out. The peak in Zone 5 may illustrate the repetition that takes place in Grades 8 and 9. Zone 6 shows that learners become more vulnerable to silent exclusion and poor learning. There is a sharp drop-out rate from Grade 10 onwards, at the end of the compulsory phase of schooling.

Table 3.1.1: Zones of exclusion in South African school education

Zone	Description
Zone 0	Grade R (learners aged 5 or turning 5 in June of academic year)
Zone 1	Children who have never gone to school
Zone 2	Learners who drop out before completing primary education
Zone 3	Learners at risk of dropping out before completing primary education
Zone 4	Learners in the transition between Grades 7 and 8
Zone 5	Learners who drop out of Grades 8 or 9
Zone 6	Learners at risk of dropping out in Grades 8 or 9

Figure 3.1.1: Zones of exclusion in South African schools, 2004



Source: Lewin (2007)

This article outlines the policy and legislative context, and the financing of equitable access to education. It then provides an assessment of the patterns and causes of exclusion, followed by an analysis of how educational access is conceptualised, and some concluding comments in this regard.

THE POLICY CONTEXT

Under apartheid, significant numbers of children received schooling, especially in the primary grades, but Bantu Education severely limited the quality of education, and the apartheid regime consistently under-resourced black schools. During the 1980s, however, there was a considerable expansion of secondary schools for black learners. Since 1994, South Africa has been able to provide near universal access to basic education, albeit in a system fractured by racial inequity and offering poor quality schooling for the majority of learners.

Whereas education policy during apartheid provided for separate and different schooling for various racial groups, the focus of the post-apartheid democratic government has been to ensure equitable educational access in line with the Constitution's Bill of Rights. Thus, after 1994, policy was developed to redress past inequalities in access and to ensure inclusivity. However, while government policies aimed to open up access to education, they were intended also to regulate and monitor it (Motala et al. 2007).

After 1996, in line with the Constitution, compulsory education was instituted from Grades 1 to 9, or from 6 to 15 years of age. This period of basic education is referred to as the General Education and Training (GET) phase and covers seven years of primary school and two years in secondary school. The final three years of secondary school are not

compulsory, but the government is constitutionally obliged to make this Further Education and Training (FET) phase progressively more available. Learners can acquire an FET qualification by completing Grade 12 in the schooling system or by attaining an equivalent certification from one of 50 public FET colleges, or through opportunities offered by the private sector. Adult Basic Education and Training (ABET) offers an alternative route to both GET and FET qualifications, especially for young people and adults older than the 15-year compulsory age limit.

Responsibility for schooling (GET and FET) is concurrent between national and provincial government. The national Department of Education (DoE) takes the lead on developing national norms and standards, and creates the main policy and legislative frameworks, while the provinces take executive responsibility and make the funding decisions. Therefore, access differentials can be studied between and within the nine provinces. Provision of schooling is mainly public, with independent schools accommodating fewer than 4 per cent of learners in Grades 1 to 9 in 2004. In 2005, there were 11 902 316 learners in the education system, the majority of whom were in public primary schools. Learners in the latter category totalled 7 588 987, while those in secondary schools numbered 3 769 255 (DoE 2007).

Post-apartheid education policy was informed by its commitment to the fundamental right of all citizens to education, equity, redress and the improvement of quality. The structure of the education and training system was completely transformed, and new policies were designed to create an inclusive and efficient system. Attention was given to ensuring access of marginalised learners, children infected with HIV/AIDS and learners with special educational needs (LSEN). A progressive outcomes-based curriculum was introduced, as well as measures to monitor educational quality. Education governance was devolved to schools, among other things permitting School Governing Bodies (SGBs) to charge fees, with significant implications for educational access (see below). The policy on LSEN emphasises mainstreaming learners with mild learning disabilities into ordinary schools. The reception year, Grade R (for children turning 5 before the end of June), is currently being implemented, and the target is to reach full coverage of this grade by 2010. Pro-poor finance policies, school fee exemptions and, most recently, fee-free schools have assisted in getting indigent learners into class. While policy hoped to assist all children in realising their constitutional right to education, it also aimed to create a more efficient system by regulating repetition and by applying age-grade norms to minimise under- and over-age learners.

A review of policy and implementation suggests that the South African government has a political commitment and will to increase educational access on the basis of equality and social justice, in keeping with the EFA aims and MDGs. In the early 2000s, policy review processes attempted to shift access policies explicitly towards the needs of poor communities and disadvantaged learners. However, the contested nature of all policy development, and attempts to mediate competing stakeholder interests, inevitably resulted in compromise. Until recently, education funding to provincial education departments had been constrained significantly by the government's macroeconomic and fiscal policies. The capacity and commitment of provincial governments to budget adequately for education and to spend funds effectively has been highly uneven. For several years, the expansion of education opportunity seemed to have taken second place to government efforts to curb wasteful expenditure and radically improve internal efficiency in provincial education systems. Therefore, while the government's measures are undoubtedly equitable in intent, but by no means have they erased inequalities in education provision, access or outcomes.

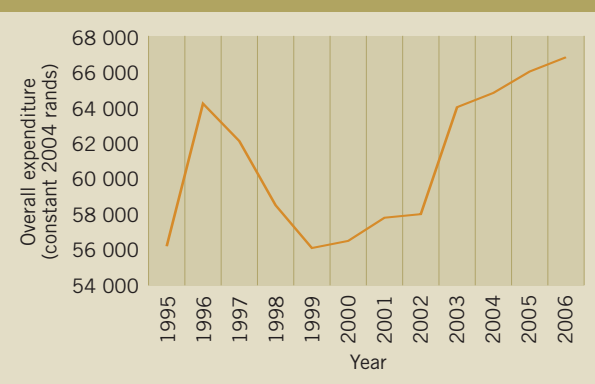
Therefore, while the government's measures are undoubtedly equitable in intent, but by no means have they erased inequalities in education provision, access or outcomes.

In order to create an enabling environment for access to quality schooling, issues of financing and resourcing continue to be of greatest concern. Current policies address the zones of exclusion in various ways, especially by actively seeking to reduce the number of out-of-school children (mainly, but not only, in Zone 1). The transition from primary to lower secondary schooling (Zone 4) appears to be managed reasonably successfully. The policy challenge is both about improving efficiency and about greater inclusion, and, at the same time, must ensure that younger children and those with special needs and learning difficulties are not excluded because of policies too intent on efficiency. There continues to be a need in South Africa to bridge the inequalities across the public schooling system through better redistribution and possibly expanded provision of resources.

FINANCING EQUITABLE ACCESS TO EDUCATION

Education expenditure increased from R31.1 billion in 1995 to R59.6 billion in 2002, to R105 billion in the 2006/07

Figure 3.1.2: Education expenditure at provincial level, 1995–2006 (constant 2004 rands)



Source: Lewin (2007)

budget, and is projected to increase to R127 billion by 2010 (National Treasury 2007). Over the same period between 1995 and 2007, education expenditure, in real terms, amounted to 19.9 per cent of consolidated national and provincial expenditures. Expenditure on national education represented 5.4 per cent of GDP in 2006/07. In 2009/10, national and provincial expenditure will represent 19.8 per cent of consolidated national and provincial government expenditures, at 5.3 per cent of GDP. The national education budget was projected to grow by 7 per cent in 2007/08 while sustaining a real average growth of 5.9 per cent (National Treasury 2007). Figure 3.1.2 relates to provincial expenditure, and shows that education expenditure peaked around 1996, declined thereafter and then resumed growth in the late 1990s and after 2000.

Nevertheless, policy implementation has been constrained by the scale of the historic backlogs inherited from apartheid and the effects of inflation on education costs. Expenditure has also prioritised public ordinary schools, crowding out spending on other services like Inclusive Education, Early Childhood Development and Adult Basic Education.

Some headway towards equalisation was achieved through efforts at educator redistribution (post-provisioning), in terms of which many educators in previously advantaged schools were given the option to teach at previously disadvantaged schools or to apply for early retirement. However, this also resulted in large numbers of highly qualified educators leaving the profession.

Partly as a result of financial pressure, the South African Schools Act 84 of 1996 (SASA), among other measures, allowed for SGBs to raise additional capital by charging fees. One of the intended outcomes of charging school fees was to

encourage children from middle-class families to stay in public schools because those schools were able to hire additional educators, reduce learner-educator ratios and acquire other features that enhanced the provision of quality education. However, because wealthier school communities are able to raise substantially more funds than poor schools, fees have acted as a barrier to school access and have allowed for vast differentials to continue between schools.

Equity mechanisms, therefore, sought to redistribute state funding towards the poorest schools. The equitable shares formula sought to redistribute funding from the national level to provinces, based on a weighted average of demographically driven formulas that utilised the criteria of rurality, poverty and infrastructure development. The National Norms and Standards for School Funding (NNSF) (DoE 1998), which took effect on 1 January 2000, dealt with public funding of schools, exemption of parents who were unable to pay school fees, and subsidies to independent schools. It required each provincial education department to rank all its schools from 'poorest' to 'least poor', and then to allocate funding for non-personnel purposes progressively. The NNSF required that 60 per cent of the available funds be allocated to the poorest 40 per cent of schools.

Although significant in terms of redress, this policy has had a marginal impact on schools. The most important reason for this is that the overall amount available for the school funding norms is limited to non-personnel expenditure, which constitutes about 15 per cent of overall school-level expenditure. As the DoE has noted, 'despite dramatic increases in the value of the school allocation of learner support material (LSM) funds, in certain provinces the monetary value of this allocation is still too low' (DoE 2006a). Secondly, the poorer schools often lack the financial capacity and expertise to access the budget allocated to them. Meanwhile, schools in the more affluent quintiles continue to compensate for reduced funding by charging higher school fees, thus maintaining existing differentials.

Technical targeting processes are important, no doubt, but it became clear that they were not sufficient to eliminate the deep structural disparities in South African education provision. Because of the substantial economic differences between provinces, better-off schools in one province could receive more state funding than the poorest schools in another. The resource targeting system was designed to address intra-provincial inequities but could not take account of inequalities among provinces, which resulted in different funding allocations to the same quintiles in different provinces. To address these concerns, the NNSF was

completely overhauled in 2006 and a national poverty ranking model was put in place.

because wealthier school communities are able to raise substantially more funds than poor schools, fees have acted as a barrier to school access and have allowed for vast differentials to continue between schools

It is apparent that after a decade of democracy, South Africa has moved from an explicitly race-based and unequal system of public education to a national system intended to provide all South Africans with equal access to education opportunities. However, despite improvements and funding equity, many learners, especially in the rural areas, continue to lack access to proper infrastructure and have to manage with limited textbooks, badly stocked school libraries and poorly trained educators. It is clear that many South Africans do not have access to the constitutionally mandated basic education of good quality. The relationship between increasing resource outputs and education outputs, such as quality outcomes, requires more systematic research in South Africa. Evidence thus far indicates that educating children from poor families requires more resources than educating children from better-off families (Van der Berg 2006). The exact depth of institutional and social deprivation and the scale of disparities between South African schools have been vividly described by Jansen and Amsterdam (2006), Moll (2000) and Spreen and Vally (2006). What has also been noted is that despite significant policy shifts in terms of the overall distribution of resources, public expenditure on education is yet to reach sufficiently pro-poor levels and continues to marginally 'favour the rich' (Gustaffson & Patel 2006).

PATTERNS OF EXCLUSION

Access to basic education in South Africa is expansive when compared with other developing countries. Age-specific school enrolment rates for 6–15 year olds in South Africa stand at over 95 per cent. However, lower net enrolment rates – 87.4 per cent for primary schools in 2004 – suggest that learners are not in the correct grade for their age (most likely they are over-age).

Almost all school-age children are enrolled in schools, with just under 2 per cent of learners never entering a school. Statistically, therefore, Zone 1 is less of a concern than the

other zones of exclusion. Most learners stay in school through to the end of primary school, with 88 per cent of learners completing Grade 7 in 2003. This figure does not take into account repetition and drop-out in Zone 2, which is calculated to average 4 per cent (DoE 2007). In terms of the transition from primary to secondary school (Zone 4), the 2004 data show that 90 per cent of learners moved from Grade 7 to Grade 8 for the last two years of compulsory education. There has been a significant improvement in the completion rate of basic education, with an increase from 78 per cent in 1997 to 92 per cent in 2003 (Zone 5). Beyond CREATE's zones of exclusion lie the post-compulsory, final three years of secondary school, which many young people battle to complete. The drop-out rate in Grade 11 is estimated to be about 30 per cent, and by the age of 19 years the drop-out rate is about 50 per cent. As the Ministerial Committee on Learner Retention in the South African Schooling System has noted, the high failure rate, repetition and drop-out from Grades 10 to 12 require urgent policy attention (DoE 2008a).

The specific policy challenge in South Africa is less one of enrolment and more one of retention, achievement and completion on schedule for age, especially completion of lower secondary schooling.

Zone 3 (Grades 1–7) and Zone 6 (Grades 8 and 9) include learners who are at risk of dropping out. These zones of exclusion are characterised by a range of endogenous and exogenous factors that limit learners' abilities to contend with schooling. Exogenous excluding factors include poverty, rates of orphanhood, the environment in which schooling takes place and the impact of HIV/AIDS. Endogenous excluding factors include erratic attendance, over-age enrolment and repetition. These zones are also zones of silent exclusion, affecting learners who are present in class but underachieving.

The exact nature of the problem in Zones 3 and 6 is difficult to specify, although the following statistics reveal the scope of the problem and point to these zones as being the most important for further research:

- In the national DoE's systemic evaluation of Grade 6 (DoE 2005), learners obtained a national mean score of 38 per cent in the language of learning and teaching, 27 per cent in mathematics, and 41 per cent in the natural sciences.

- 32.8 per cent of households received a government grant in 2003 based on poverty. The grants impact positively on school access, encouraging vulnerable children to enter school and stay there.
- 22 per cent of children (aged 0 to 19 years) eligible to receive the Child Support Grant are not receiving it.
- 7 per cent of children are always or often hungry, and just over 17 per cent of children are sometimes hungry (2003 figures). As a recent Organisation for Economic Co-operation and Development (OECD) report on South Africa notes, 'a poor child is often a hungry child', and this impacts on learning and academic performance.
- The impact of HIV/AIDS is evident in the growing number of orphans. In 2003, 17.4 per cent of children had lost one parent and 3 per cent of children had lost both parents. (OECD 2008)

The key issue for CREATE is how to address meaningful educational access for girls and boys from age of 5 to 15 years. The specific policy challenge in South Africa is less one of enrolment and more one of retention, achievement and completion on schedule for age, especially completion of lower secondary schooling. Achievement data show the very low levels of basic skills acquisition by Grades 3 and 6. The South African case also shows that the actual age of entry is often more (occasionally less) than the official age. Many children are in grades below those appropriate for their age. The age of primary school completion is perhaps several years above the nominal age for the last grade, and many primary school children are of secondary school-going age. Late entry appears to reduce the chance of completion and exacerbates slow progression through the grades.

South Africa is close to achieving universal basic education, particularly when one considers gross enrolment ratio figures of over 100 per cent and a net enrolment ratio of close to 83 per cent for the compulsory phase of schooling. Almost all learners enter school and the majority reach the end of Grade 9. However, there are many vulnerable learners who are prone to dropping out during the compulsory phase of schooling, either as a result of poverty and an inability to afford schooling costs, because of trauma related to HIV/AIDS, which also robs families of breadwinners and imposes care-giving demands, or because of low achievement and poor teaching. The poor quality of schooling contributes to repetition, with both learners and parents losing faith in the education system. This is particularly evident in the post-compulsory phase of schooling, given the large drop-out of learners after Grade 9. The biggest access problems in South Africa, therefore, reside in Zones 3 and 6.

Although information from the Education Management Information System allows us to view provincial and national averages, the data need to be handled with caution. When learner numbers are collected from schools, there is a possibility that they are inflated because teachers and non-personnel resources are distributed partly according to learner numbers. The more learners a school claims, the more funds they can claim from the state. It would be useful, therefore, to check national averages against quantitative studies of access patterns on a smaller scale. Data on transition, completion and repetition will have to be calculated from provincial, district and school-level databases to provide a more comprehensive picture of access. Household surveys will provide valuable socio-economic and other data.

THE CAUSES BEHIND EXCLUSION

Several factors that permeate contemporary South African society, from the economy to the school and from the family to the individual, have been identified as causes of exclusion. All of them put pressure on vulnerable learners, affect their learning and can eventually lead to their departure from school. These factors can be organised around two major themes. The first is a set of economic and social factors, including the indirect cost of education and social factors that include family structure, gender and HIV/AIDS. The second is a set of school-related factors such as discrimination, racism and sexism, and educator unpreparedness, and personal factors such as the health of, support for and motivation of learners themselves. The remainder of this section reflects on these.

Economic and social factors

South Africa's enrolment rate is high, even in circumstances where households have experienced economic or social stress. There is little evidence in the South African context that child labour disrupts school enrolment (though it may impact on performance), despite the fact that it is widespread in the country. Neither is there a 'Cinderella effect' on the schooling of foster children: foster children are just as likely as the blood-related children of a household to be in school, although they may be behind in terms of their age. HIV/AIDS seems to have a greater impact on the school attendance of older rather than younger children. There appears to be a routine of school attendance in South Africa that may even provide a measure of stability for households in times of crisis.

However, despite high enrolment, vulnerability to drop-out or silent exclusion is a major problem and, as noted above, this

is particularly so in Zones 3 and 6. The quality of education for the majority of learners is still substandard and, pressurised by poverty and illness (which is not limited to HIV/AIDS), many are susceptible to dropping out. Protracted poverty appears to be the most important reason for learners being out of school. The depth of poverty – in terms of material deprivation, social isolation and their psychological consequences – distinguishes the children who were not in school from their school-going peers in the same poor community.

Economic factors, including the indirect costs of schooling, affect access. Difficulties in paying school fees should be alleviated as the fee-free school policy is implemented in the poorest schools, but the costs of transport, school uniforms, books and stationery add extra burdens to already-stretched household budgets. Among the costs of schooling, transport expenses are the single biggest impediment to educational access for those who do not walk to school.

Several studies have gauged that cash transfers such as the Child Support Grant have a positive effect on enrolment, especially in ensuring that learners begin Grade 1 at the appropriate age.

School and personal factors

Schools themselves play a big role in encouraging or discouraging access. Many learners who have structural access to schooling are present (as is reflected by high enrolment rates) but are learning very little. What this means is that they do not have access to the content knowledge and skills needed to reach the required levels of achievement and competency. This is evident in the following:

- Learners in South Africa, and especially those in township and rural schools, are not competitive in comparison with international levels of achievement such as the Trends in International Mathematics and Science (TIMSS) study. It is also significant that South African learners fare poorly in relation to their regional counterparts in Botswana and Malawi (Howie & Plomp 2006).
- Learners in Foundation Phase classes are unable to read and write adequately, and their educators are unable to properly teach them how to do so. This is reflected in the low scores achieved in the Monitoring Learning Achievement (MLA) project undertaken by UNESCO, which looked at numeracy and literacy scores (Chinapah et al. 2000).
- What is often related to poor quality learner performance is educator content knowledge, their pedagogical skills, and their presence in or absence

from classrooms (i.e. educator contact time). Educators, in turn, have suggested that the new curriculum has brought onerous burdens with more administrative responsibilities for educators (Chisholm et al. 2005).

Various other underlying social phenomena, such as racism, sexism, bullying and xenophobia contribute to unwelcoming conditions in schools. Given apartheid's legacy, the problem of racial integration in schools has received a great deal of attention – although proportionately multiracial schools are a minority. While schools are no longer allowed to discriminate on the basis of race, other exclusionary devices have limited access to comparatively better-resourced ex-whites-only schools: their geographic location, usually far from where most black learners live, their high fees and their often unwelcoming cultural ethos.

The gender of learners has a direct impact on educational access and performance. Patriarchal male attitudes and behaviour towards schoolgirls is a matter of serious concern, with girls frequently encountering rape, abuse, harassment and assault by male classmates and educators. There are more girls than boys in the system from Grade 6 to 12, and girls are less likely than boys to regard education as irrelevant. Pregnancy is an important factor in schoolgirls dropping out.

Another factor contributing to poor outcomes has been the way in which children with learning disabilities have been dealt with in the system. While policy emphasises the mainstreaming of children with learning barriers into ordinary schools, no additional financing has been allocated to support this. Children with learning barriers, therefore, seldom receive the necessary support.

Parents and guardians are not always able to provide the necessary background and knowledge of schooling to support their children, and this may provide at least one clue as to why many learners fail and repeat. Correlations between mothers' and children's educational levels are really significant only if mothers have been substantially schooled. Not unexpectedly, educated parents are more likely to provide support for learning and to send their children to better schools.

Individual learners' and parents' assessment of the relevance of education is a key motivating influence on continued attendance at school. After fees, the most important reason why learners remain out of school is their perception that it is useless or uninteresting: almost 10 per cent of learners overall, and more boys than girls (13.5 per cent as against 6.5 per cent), hold this depressing view of the value of education (Stats SA 2006).

Unfortunately, such perception cannot be countered yet with empirical proof from the South African context.

Research on the amount of schooling that is required for higher rates of monetary return in the form of earnings is still inconclusive. While some argue that such returns are probable, others contend that the benefits of basic education are indeed negligible.

While our review is not a comprehensive portrait of all factors affecting access to schools, the research on which it is based, supported by statistical analyses, sketches a bleak picture of access patterns in South Africa. Most learners enrol in and complete primary education, but late entry and relatively high repetition rates have a slowing effect on progress through the system. Marginalisation and poverty are significant factors in the generally slow transition rate through the grades. There is a great demand for schooling, despite numerous barriers to success and poor quality of outcomes, which are partly a consequence of unwelcoming schools and uncaring educators. Learners, too, are not blameless, lacking discipline and motivation. Yet many parents, themselves of meagre means and even more miserable schooling, are so keen on education for their children that they are prepared to foster them to relatives in order to improve their chances of accessing school. Withdrawing learners from basic education appears to be a measure of last resort – even in the context of HIV/AIDS. Given the generally positive culture of school-going in South Africa, the poor quality of schools is a haunting worry.

CONCLUDING COMMENTS

It is suggested above that the experience of apartheid education requires a view of educational access that is wider than mere structural access to schooling. Under apartheid, most black South Africans did have access to schooling, but this access was based on separation and inequality. In the light of the CREATE model, which is particularly relevant to the South African case, it is evident that educational access is not only about how many learners of school-going age are in school, nor even about how many successfully complete their schooling. Educational access is also about who has access to what *kind* of schooling, and on what *basis*.

Education policy in post-apartheid South Africa is based on legislation and procedures aimed at increasing educational access for all South Africans, as a human right and on the basis of equality. These laws and procedures determine budget and resource allocations intended to improve and expand educational provision in poorer schools and areas. In the context of the history of education in South Africa, this constitutes a highly significant reallocation of resources for the purposes of transforming and redressing the legacy of

apartheid and creating a much more democratic dispensation. However, as our earlier discussions illustrate, many South Africans still do not benefit from increased access, and tend to drop out after junior secondary schooling because of a variety of factors that include poverty, unaffordable fees, low achievement, HIV/AIDS, poor health and nutrition, pregnancy and discrimination. Regrettably, much of the problem also resides in low levels of motivation and commitment amongst learners, their parents and educators alike. South Africa's achievements with regard to school access and high enrolment, in contrast to many other developing countries, must not be underestimated. However, this should not be permitted to distract us from a much bigger challenge, that of giving substance to the formality of compulsory schooling.

What has been argued here is that two major conceptions of educational access prevail in education policy and research. These are of structural access and meaningful access. In many EFA programmes in South Africa, educational access is presented as a supply-side issue that can be resolved if enough places are provided. While structural access to education is necessary, it is not sufficient by far to achieve quality EFA (Colclough & Lewin 1993). Meaningful access has to be achieved, which requires a focus not only on the rates and economic implications of such experiences but also on the processes and dynamics that construct them. This will make an important contribution to a just and equitable experience of schooling.



research

STRENGTHENING THE FOUNDATION: EXPANSION OF EARLY CHILDHOOD DEVELOPMENT SERVICES

Linda Biersteker

The poverty environments within which most South African children grow up do not provide good platforms for cognitive development and full participation in society. Nowhere is this more evident than in this country's poor schooling outcomes and low skills base. Against this background, and based on compelling research evidence that links early childhood development (ECD) services to better schooling outcomes and broader health and social benefits (Biersteker & Dawes 2008; Lynch 2004; Willms 2002), ECD is being recognised increasingly as a critical area for government intervention.

The growing political commitment to the 'massification' of ECD services has been demonstrated by increased budgetary provision and its inclusion in high-profile programmes like the Expanded Public Works Programme (EPWP), and as a current APEX priority, which was announced by the President in his State of the Nation address in February 2008. This article outlines the government's vision of early childhood development provisioning for children aged 0–6 years, as expressed in key legislation, policy and programmes; it examines progress in service delivery and reflects on what further is required to strengthen this foundation.

PUBLIC ECD POLICY AND PROGRAMMES

The framework for holistic ECD service provision was established in the 1995 White Paper on Education and Training, which defined ECD as: 'An umbrella term that applies to the processes by which children from birth to about nine years grow and thrive, physically, mentally, emotionally, spiritually, morally and socially' (DoE 1995).

The Children's Act 38 of 2005 restricts the age range to school-going age for the purposes of its mandate, but retains the holistic definition. Therefore, ECD servicing should not (as is commonly the case) be understood narrowly as providing ECD centres or pre-schools. It includes programmes that address basic family needs for shelter, water, nutrition, primary health care, safety and security and the empowerment of

Selected demographic and service access information on young children

- Population 0–4 years: 4 985 000
- Population 5 years of age: 976 000
- Infant mortality rate: 43 per 1 000 live births
- Under-5 years mortality rate: 58 per 1 000 live births
- 92 per cent of women receive professional antenatal care and have medically assisted deliveries
- Over 90 per cent immunisation coverage had been achieved by 2005
- 26 per cent of children aged 1–3 years are stunted, 12 per cent are underweight, and 2 per cent are severely underweight
- 23 per cent of 0–4-year-olds attend an educational institution
- 58 per cent of 5-year-olds attend an educational institution

Sources: DoH (2004); Labadarius (1999); Naidoo (2007); Stats SA (2007)

parents with knowledge and skills on effective parenting. This involves policies and programmes from several departments, but primarily those of Education, Health and Social Development, at all three levels of government.

With the advent of democracy in 1994, ECD was recognised as a key area to be promoted in the quest for reconstruction and human development. The 1995 White Paper on Education and Training identified early childhood as the starting point for human resources development, and committed the government to the provision of 10 years of free and compulsory education, starting with a reception year for five-year-olds. The White Paper further highlighted the need for formal interdepartmental committees of the Department of Education (DoE) and the Department of Social Development (DSD) to develop and promote a multidisciplinary approach to ECD servicing. In the same period, the White Paper for Social Welfare (DSD 1997) included a focus on young children, prioritising disadvantaged children under five years of age, especially those under three years and with disabilities, and committed the government to subsidising a range of programme options to help meet the varied ECD needs of families.

White Paper 5 on Early Childhood Development (DoE 2001a) committed itself to the policy priority of a national system that provides for a Reception Year (Grade R) for five-

year-olds. For children under the age of five, the White Paper provided for the development of a strategic plan for inter-sectoral collaboration, through the ECD priority group of the National Programme of Action for Children. Further progress was delayed until 2004 when the Cabinet instructed the social sector cluster in the government to develop an integrated plan for the development of ECD services for younger children. This produced the National Integrated Plan for ECD 2005–2010 (DoE, DoH & DSD 2005). The plan is overseen by the Interdepartmental Committee for ECD, which is co-ordinated by the DSD. The Children's Act covers ECD services and programmes for children under school-going age and provides for regulations, norms and standards in this regard.

Key current public programmes and initiatives for ECD in support of young children's rights in South Africa include:

- free health care for children under five years of age, and pregnant and lactating women (introduced in 1994);
- social assistance in the form of a child support grant (introduced in 1998);
- poverty-targeted per-child subsidies in non-profit community-based ECD centres for children prior to school-going age;
- the phasing in of Grade R for five year olds as a first year of schooling (from 2001); and
- the interdepartmental National Integrated Plan for 0–4-year-olds, which is intended to co-ordinate and integrate delivery of a basket of services to young children at home, in the community and at centres (from 2005).

FROM POLICY TO IMPLEMENTATION: THE CURRENT STATUS OF ECD PROVISIONING

The context for delivery of ECD services in South Africa is immensely challenging, due both to the massive scale of need, on the one hand, and to a legacy of under-provisioning, on the other. Although services like primary health care, birth registration and basic education are universal, poor children remain the focal group for all public programmes aimed at young children. Research, based on the Income and Expenditure Survey for 2005/06, estimates that 65.5 per cent of South Africa's children are poor.¹ Moreover, the poverty headcount amongst children under five years of age is slightly higher at 66.1 per cent (Streak, Yu & Van der Berg 2008). Research on the correlation between poverty in the traditional sense and other forms of deprivation illustrates that children who live in poverty suffer poorer access to basic

services and rights, and poorer quality services (Dawes, Bray & Van der Merwe 2008). For young South Africans, under-nutrition represents the most devastating effect of poverty, and a quarter of children younger than three years are reported to have stunted growth (Labadarius 1999). This severely compromises their development and ability to benefit from education.

For young South Africans, under-nutrition represents the most devastating effect of poverty, and a quarter of children younger than three years are reported to have stunted growth.

Thus, the extent and equity of access to ECD services is a primary and critical consideration for an assessment of progress in this regard. We know very well that overall access may look good on paper, but it may mask serious disparities. For example, while 80 per cent of eligible young children access social assistance in the form of a child support grant, children in the poorest two quintiles are least likely to have accessed it (Biersteker & Streak 2008).

Quality of service provision is a more challenging and even more critical concern. Again, by way of example, indications are that most young children have access to the primary health care system (Salojee & Bamford 2006), but concerns have been raised that the quality of service that they receive is inadequate. This has been ascribed to the immense pressure on the system, which is burdened by staffing shortages and the requirement that it provide both treatment and preventive services (Harrison, Bhana & Ntuli 2007).

Reception year provision

In White Paper 5, the DoE prioritised the establishment of a national system of provision for 5-year-old children.² This translates into the most significant public sector policy commitment ever to ECD in South Africa. The option of lowering the age of admission to state-supported education programmes to include a pre-primary or reception year follows the route taken by many developed and developing countries. Its main goal is to ensure that *all* children will have access to a reception year programme by 2010, and that this will be mainly within the public primary schooling system. Significantly, it requires that accredited Grade R programmes be established at all public primary schools by 2010 (DoE 2001b). The intention is that some community-

based centres will form part of the public system of provision, but only if a public primary school option is not available or accessible, or the community-based centre is required for piloting purposes. Independent schools may also offer Grade R, but all reception year programmes must be registered with provincial education departments.

It is clear from the education White Papers that the provision of Grade R is seen as fulfilling the government's commitment to basic education. In the roll-out phase, however, there has been hesitation to refer to it as compulsory, and terms such as universal coverage have been used instead. Nevertheless, the norms and standards for Grade R funding published in 2008 indicate the intention to achieve universal and *compulsory* coverage by 2010 (RSA 2008).

It may be asked how we are faring with only three more school year enrolments until the 2010/11 financial year, which the DoE has identified as when nearly 1 million children should be in the system. Table 3.2.1 indicates the extent of the roll-out for Grade R from the time of its official announcement in 2001 until 2007, and shows what still needs to be achieved if the target of an estimated 990 000 enrolments is to be met. This does not include data from freestanding ECD centres (i.e. community-based sites). Some critics suggest that January 2011 is unrealistic, given the average expansion rate of about 43 000 children per year since 2004 and the probability that the capacity in the system is reaching saturation point. However, using data

from the 2007 Community Survey, the DoE has estimated that there are about another 200 000 children in community-based sites that were not captured on the EMIS system.³ This would bring roll-out to around 70 per cent of the target. Lack of accurate data is thus a challenge to be addressed in future by the capturing of all Grade R classes on the EMIS system. Uncertainty about population size is another constraint, given high migration levels. So, for example, in the Western Cape, the required Grade R capacity is estimated from the Grade 1 enrolment.

Implementation rates across provinces suggest that some provinces will reach 'universal access' by the due dates but that others may find this challenging. Variation in coverage across the provinces largely reflects the provincial commitment to Grade R, but is also influenced by coverage in community sites. While rural provinces have the poorest access to most services, it is the former 'homeland' provinces of the Eastern Cape, Limpopo and KwaZulu-Natal that have the highest roll-out percentages in the public school system. This may well be attributed to an underdeveloped community Grade R system and the fact that these provincial departments prefer the use of public schools.

Even if targets are reached and all reception year learners have access to a Grade R education, the DoE and NGOs in the sector have serious concerns relating to the quality of provision they are likely to access. Bringing a further 750 000 children into the system between 2001/02 and

Table 3.2.1: National enrolment in Grade R, 2001–2007

Province	2001	2002	2003	2004	2005	2006	2007	Target	Percentage
<i>Eastern Cape</i>	18 873	23 562	46 371	75 571	105 231	96 364	112 889	149 968	75
<i>Free State</i>	16 002	17 220	16 323	16 482	18 449	20 072	22 429	585 50	38
<i>Gauteng</i>	23 920	28 189	31 666	34 690	41 073	47 314	49 931	168 664	30
<i>KwaZulu-Natal</i>	73 993	72 312	75 996	73 098	79 276	92 948	118 884	214 515	55
<i>Limpopo</i>	84 243	90 332	89 790	89 725	98 273	102 969	93 030*	132 965	70
<i>Mpumalanga</i>	5 803	12 148	13 884	23 695	14 171	25 734	34 962	74 090	47
<i>North West</i>	3 176	3 142	4 325	5 625	9 737	15 311	16 143	81 137	20
<i>Northern Cape</i>	4 042	3 744	5 500	5 875	6 598	7 259	8 423	19 061	44
<i>Western Cape</i>	11 473	28 077	31 532	31 726	32 389	33 650	30 834**	91 580	34
<i>National</i>	241 525	278 726	315 387	356 487	405 197	441 621	487 525***	990 530	49

Source: DoE (2008c)

Notes: *This enrolment dip probably reflects changes in provincial boundaries in which many schools moved to Mpumalanga. **In the Western Cape, there are 20 000 5-year-olds in stand-alone ECD centres supported by the DSD. ***EMIS data exclude stand-alone ECD sites, where the DoE estimates another 200 000 Grade R learners are enrolled.

Table 3.2.2: ECD budgets by provincial education department, 2006/07–2010/11

Province	2006/7 R'000	2007/8 R'000	2008/9 R'000	2009/10 R'000	2010/11 R'000
<i>Eastern Cape</i>	64 346	91 513	274 397	395 539	539 922
<i>Free State</i>	49 632	56 338	70 324	77 337	81 727
<i>Gauteng</i>	79 000	152 739	214 571	310 146	583 746
<i>KwaZulu-Natal</i>	102 658	167 736	208 234	336 202	608 363
<i>Limpopo</i>	68 868	63 935	155 759	228 615	445 775
<i>Mpumalanga</i>	41 827	64 211	91 551	143 375	243 195
<i>North West</i>	151 510	146 512	164 165	210 088	302 866
<i>Northern Cape</i>	18 141	24 692	57 251	73 350	115 264
<i>Western Cape</i>	107 397	164 804	226 792	274 011	320 922
<i>National</i>	683 379	9 324 80	1 463 044	2 048 663	3 241 780

Sources: DoE (2008c); Wildeman (2008); Wildeman & Lefko-Everett (2008) (from the Provincial Budget Statements)

Note: Education budgets allocated under Programme 7, ECD, are to provide funding as articulated in Norms and Standards for Funding Grade R (i.e. site level). Funding for additional district, provincial and national level staff would fall under the administrative budget and would not be disaggregated to ECD.

2010/11, at an acceptable quality of service, requires increased funding, curriculum development, co-ordination systems, improvement of the educator skills base through training and support, additional physical infrastructure and increased provincial and district systems and staff capacity for implementation and monitoring.

The location of Grade R mainly in the schooling system was justified on the basis that the requirements would more easily be met there, but given general infrastructure backlogs in the system as a whole, and particular requirements for Grade R in terms of instructional space (young children need room to move), suitable toilets and protected outdoor play space, this remains a challenge. The DoE has recognised certain systemic challenges in regard to Grade R roll-out, and measures to address these are now in place, including:

- systems to pay practitioners and upgrade qualifications;
- an audit to collect accurate data (on salaries, qualifications); and
- a strategy to move away from different levels of funding across the provinces. (DoE 2008b)

Grade R's position in the schooling system is ambiguous and, together with its funding model, this has created problems for the upgrading of the sector. From a curriculum perspective, Grade R is the first year of primary schooling, forming part of the National Curriculum Statement for the

Foundation Phase, but it is differently financed and staffed. Funding allocations for Grade R come from provincial education budgets, and, in order to get Grade R into the system, it was introduced on a lower cost level and was justified on the basis of savings in the education system, through increased efficiencies and a declining school-age cohort of children aged 6 and 7 years.

The funding mechanism for Grade R was introduced to 'enable a combination of the lower cost of the community-based centres, but holding the possibility of greater quality control and accountability, as well as putting ECD provision under easier administrative reach of provincial departments of education' (DoE 2001a: para. 4.2.1.12). It operates in two ways: community-based ECD centres are funded by provincial departments on a per-learner basis; in public primary schools, provincial education departments provide a direct grant in aid to school governing bodies that employ the Grade R teachers. Subsidisation of Grade R is poverty-targeted but has lagged 'substantially behind funding for other grades in the same school and in 2005 was approximately 7 times less than for a Grade 1 learner' (Biersteker et al. 2008). This is despite the indication in White Paper 5 that the cost should be about 70 per cent of a Grade 1 learner. Provincial budget allocations to ECD and per capita expenditure vary widely and have been vulnerable to competing priorities both at provincial level and within education departments.

The National Norms and Standards for School Funding (RSA 2008), which legislate Grade R funding, afford a significant lever for the national DoE to improve funding levels and introduce minimum provisioning guidelines. This allows for an increase in public funding through the provinces for Grade R provision, with more favourable per-learner funding for poorer schools to acquire additional materials or to ensure better educator-learner ratios.⁴ In order to cover a larger number of schools in the roll-out stage, the Grade R per-learner target cost of 70 per cent of a Grade 1 learner may fluctuate in the interim down to a level of 50 per cent, provided that national standards are not compromised.

There is provision for provincial departments to establish posts for Grade R in public schools drawn from the school's total Grade R allocation. This alternative to the employment of educators by the school governing body from their Grade R allocation is the preferred model for all the provinces.⁵ It provides for greater employment stability and status for educators, which is more conducive to quality.

regular support and monitoring
is a basic requirement for achieving
and maintaining quality, and human
resource capacity at provincial
and district level remains a
critical concern

As indicated in Table 3.2.2, there have been substantial resource commitments to ensure the achievement of access targets and the application of the required norms and standards by January 2009. Budgets are projected to grow from R932 million in 2007/08 to R3.2 billion in 2010/11 at a real average rate of 44.2 per cent, which makes it the fastest-growing education programme in budgetary terms (Wildeman & Lefko-Everett 2008). While such growth has been from a low base, it signifies, according to Education Minister Naledi Pandor, 'real resolve to do more for all young children' (Pandor 2008).

While a legislative mechanism to enforce planning for Grade R and budgeting for educator salaries and specified learner support material is a significant advance, several issues of concern remain. Firstly, the provincial discretion in the allocations for Grade R, which provide for faster roll-out, might sacrifice quality service provisioning in return for affordability within provincial budgets (Wildeman & Nomdo 2006). Secondly, Grade R teachers are not state employees, even if they are paid by the provincial department, as they

do not fall under the norms and standards for educators. The difficulty in retaining suitable Grade R teachers is a significant challenge and relates to the broad area of qualifications, career paths and salaries (which vary across provinces and public and community sites).

While many training opportunities have been provided for Grade R educators through a DoE conditional grant and through the EPWP and other learnerships, it is clear that far more needs to be done. An audit of qualifications is to be undertaken by the DoE to provide a basis for planning. However, based on a 1:30 educator-learner ratio, some 31 000 educators would be required for Grade R by 2011. The sector has a low skills base on which to build. In 2001, only 12 per cent of the 48 500 practitioners in the ECD sector were qualified in terms of departmental requirements (a matriculation plus at least a three-year diploma) (DoE 2001b). Currently, an NQF Level 4 is the recommended minimum for a Grade R educator, although in many provinces qualification levels are lower. The audit and development of a national training strategy, which will upgrade the sector to tertiary levels, is an essential requirement for quality.

There are several other departmental initiatives to improve quality, including the development of support materials for educators, such as posters and practical ideas booklets. In addition, new draft standards for the Grade R programme have been used in the identification of model classes in each province. However, regular support and monitoring is a basic requirement for achieving and maintaining quality, and human resource capacity at provincial and district level remains a critical concern. Many officials, as well as heads of department and principals in schools, lack the knowledge that is required to facilitate delivery of the play-based pedagogy for Grade R, to promote inclusion and to support multilingual learning. Moll (2007: 17–18) notes that:

the situation across all the provincial departments surveyed is a sense of moderate to severe 'undercapacitation' of the offices responsible for the implementation and monitoring of Grade R. In general there seem to be too few posts allocated to these functions, or many of the posts there remain unfilled. Often, the persons responsible have other, unrelated tasks which are perceived to take priority in district or head office affairs. Where there are dedicated officials who have been on the job for some time, they are often stretched beyond their capacity. The experience-base relating to Grade R in government as a whole seems relatively low.

The Technical Assistance Unit of the National Treasury is carrying out a diagnostic study to help guide and strengthen the national, provincial and district capacity to achieve the 2010 Grade R expansion targets, and will also examine policy and synergy of plans.

The National Integrated Plan for ECD

As for Grade R, the political will behind the implementation of services for children under five years of age is extremely strong; and so the programme has been overseen by the Cabinet's Social Cluster. The need for adherence to international obligations, such as the Millennium Development Goals and the Convention on the Rights of the Child, have contributed to keeping children on the agenda. Against this background, there have been significant increases in budgetary allocations to the DSD and DoE programming for this age group.

The vehicle for expansion is the National Integrated Plan (NIP) for ECD to 0–4-year-olds (DoE, DoH & DSD 2005), which envisages:

- integrated and inter-sectoral service delivery;
- a target of reaching 2.5–3 million poor children;
- a comprehensive package of services (including birth registration, maternal and child health services, immunisation, nutrition, referrals for social security and social services; early learning stimulation and psychosocial programmes);
- service delivery in a range of sites ranging from ECD centres to communities and homes;
- a focus on vulnerable children, including orphaned children, children with disabilities and chronic diseases, children affected by HIV and AIDS, children in child-headed households, children from 'dysfunctional' families and children from poor households; and
- multiple approaches to developing young children, including direct services to them, training caregivers

and educating parents, promoting community development and building public awareness.

With its implementation guidelines, the NIP is the first ECD plan that attempts to operationalise the integrated vision for ECD of the White Paper on Education and Training (DoE 1995). It is an ambitious plan, not only because it draws together divergent departments, but also because of its huge target of 2.5 to 3 million poor children and multi-service approach.

subsidy funding is essential to the sustainability and quality of ECD centre programmes in poor communities

Guidelines for the implementation of the NIP are specific about the need for structures to work together in a way that 'facilitates reaching their individual as well as *collective* departmental mandates and goals' and that inter-sectoral collaboration is required for 'both planning and implementation at the national, provincial and local levels' (DoE, DoH & DSD 2007: 3, emphasis added).

At the national level, the three key departments meet and the DoE and DSD have planned and budgeted together. However, provincial interdepartmental structures are not fully operational in most provinces, although implementation of the EPWP ECD plan has required provincial social development and education departments to work together. At local level, there is even less integration, but there are pilot programmes in progress. The NIP has a phased approach, with an initial focus on increasing centre access and quality. This is being driven by the EPWP (DSD, DoE & DoH 2004), and includes training for practitioners who work in centre-based ECD facilities and provides for an increase in the number of subsidised centres and children.

Most ECD centres are run either privately or by the community, which inevitably has resulted in variable levels of

Table 3.2.3: Numbers of registered, subsidised ECD sites and children supported, 2004/05–2006/07

ECD sites	2004/05	2005/06	2006/07
<i>Registered sites not authorised for subsidies</i>		3 731	4 195
<i>Registered sites with subsidies</i>	4 382	5 054	5 531
<i>Number of children supported</i>	270 096	306 277	314 912
<i>Total amount of subsidies</i>	R271 815 562	R311 490 885	R350 189 490

Source: Presidency (2008)

access and quality. Provincial social development departments have a regulatory function and provide subsidies to qualifying children in non-profit centres. Centres are obliged to register with local authorities and the DSD to ensure that they meet minimum standards. Registration is necessary before any application for subsidies can be made. Qualification levels are specified in the registration standards, but there is a large backlog in trained practitioners at present.

Table 3.2.3 indicates the progress that has been made with regard to registration and subsidisation since the inception of the EPWP initiative. The target in terms of APEX Priority 11 has been to double the number of children receiving subsidies to 600 000. Subsidy budgets in 2007/08 were approximately R422 million and have doubled to R900 million for 2008/09. At the same time, the subsidy level, which is variable across provinces, has been set at a minimum of R9 per child per day. Nevertheless, the National Treasury has been requested to further increase this over the medium-term expenditure framework (MTEF) allocation, because, as comprehensive research suggests, subsidy funding is essential to the sustainability and quality of ECD centre programmes in poor communities. Moreover, such an increase should supplement existing subsidies that do not meet the costs of provision or that deter access of the poorest on the basis of their inability to pay fees (Biersteker, Streak & Gwele 2008; Carter, Biersteker & Streak 2008; Ndingi, Biersteker & Schaffer 2008).

Provincial education budgets include an allocation for education responsibilities under the NIP for ECD. These are largely for the training aspects of the EPWP programme in the provinces. The national department also requested an additional budget allocation of R821 651 000 for NIP activities (DoE 2008b). Preliminary allocations for the provinces are R647 865 000.

While the NIP is in the early stages of roll-out, there has been little focus on community- and home-based support and stimulation models, although there are many models piloted by NGOs. DSD officials, to whom the major responsibility falls, have indicated that they do not yet have a plan for the expansion of ECD services beyond centres. Given that the most vulnerable children are unlikely to be found in centres, this is a serious challenge. There are significant obstacles in the way of these programmes. Firstly, norms and standards for funding such programmes need to be established, and, secondly, draft regulations for the Children's Act need to be expanded to include them. Even through the mechanism of service-plan funding, only one province was providing significant support to ECD programmes targeting the home (Biersteker 2007). Clearly,

many aspects of the NIP are ahead of the legal and funding frameworks and the necessary provincial buy-in has not yet been achieved.

ACHIEVING IMPACT

The rationale for investment in ECD services has been based on child rights considerations, as well as economic arguments that draw a link between schooling outcomes and increased productivity in adulthood. While there is no doubt that ECD services can improve young children's well-being, most evidence of positive cognitive, social and economic outcomes comes from very well resourced interventions (Penn 2004). However, without sufficient material resources and a comparable quality of educational inputs, we cannot expect similar outcomes. At this early stage, we have not directly tested the outcomes of current South African ECD processes, although this is a requirement of the norms and standards for Grade R funding. The second cycle of systemic evaluations of the foundation phase, which yielded dismal overall scores of 36 per cent for literacy and 35 per cent for numeracy in Grade 3, included some learners who had attended Grade R classes.⁶ A preliminary analysis of the results, which are not yet publicly available, indicates that Grade R attendance has not been a significant factor in relation to Grade 3 results. While there may be a variety of reasons for this, not least because of the extremely poor quality of Grades 1 to 3, it undoubtedly strengthens the case for improvement in the quality of Grade R and the availability of services that precede it.

Priorities for pre-Grade R services include helping parents develop their abilities to provide early learning stimulation in the home, as well as ensuring that young children's health and nutritional needs are met, especially from pre-birth to three years of age, when their brains are developing most rapidly. Fortunately, ECD has taken increasing priority on the national policy agenda in terms of political will, financing and programming. In the process, increasing numbers of children have had access to services over a relatively short period. The current emphasis on improving quality rather than simply achieving access is extremely welcome. The NIP provides an opportunity to learn how to work together to provide integrated services to children and their families. All of this will require advocacy to bring parents, government officials, service providers and the wider community on board. Collectively, the level and type of inputs that are required to achieve results need to be identified, costed and budgeted for accordingly; and the efficiency with which results are monitored will be critical.

NOTES

- 1 The Income and Expenditure Survey is the most recent national data set available; it used per capita income as the welfare indicator and set a conservative poverty line cut-off at the 40th percentile of households (R6 542 per annum per capita in 2007 prices).
- 2 Regulations governing school admission were amended by the Educational Laws Amendment Act 50 of 2002. In 2000/01, children were permitted to start attending formal schooling only in the year they turned 7. This was amended in 2002 to the year they turn 6, enabling children to access Grade 1 if they turn 6 before 30 June of that year. This, in turn, permits the admission of children to Grade R if they turn 5 before June 30.
- 3 According to Naidoo's (2007) analysis of the Community Survey, there were 569 970 children aged 5 years attending educational institutions in 2007, which gives an additional 82 445 children in some form of community-based ECD provision, but not necessarily a registered Grade R class. Some children aged 4 and some aged 6 years are also eligible for Grade R. In the Western Cape alone, there are 20 000 children in this age group in community-based sites registered by the DSD.
- 4 If expenditure on learners in the middle quintile (quintile 3) is indexed to 100, then learners in the poorest quintile (quintile 1) should be funded at a level of 120, learners in (quintile 2) should be funded at a level of 110, and learners in the least poor quintile (quintile 4) should be funded at a level of 80, while those in quintile 5 should be funded at a level of 20 (RSA 2008: para. 213).
- 5 Communication to Parliamentary Portfolio Committee, June 2008.
- 6 Address by the Minister of Education, Naledi Pandor, at the Foundation Phase Conference, 30 September 2008.



analysis

SOCIAL CAPITAL AND SCHOOL EDUCATION IN SOUTH AFRICA

Russell Wildeman

One of the main purposes of organisational research is to identify individual, institutional and social factors that make institutions effective in the execution of their service delivery mandates. In school education research, a rigorous academic environment ('academic press'), the socio-economic composition of schools, the quality of school intakes and school resources, as well as the type and size of schools, have been examined carefully as potential determinants of 'effective' schools. Critical to the usefulness of this research is the ability to identify variables that could become the object of policy reform. While most social scientific research does not utilise the cause and effect apparatus of experimental research, improvements in statistical methodology make it possible to separate individual and contextual variables reliably. In the context of quantitative education research, this means that the individuals you go to school with matter as much as the school you attend. This legitimises the search for characteristics of schools that may make a difference in the academic performance of learners.

RELATIONAL TRUST IN SCHOOLS: A RESOURCE FOR SCHOOL IMPROVEMENT

Because schooling is an inherently social process, more recent empirical research has focused on the quality of social ties in these institutions as an alternative explanation in the effectiveness debate. Bryk and Schneider (2002), using insights on social capital from diverse fields, have developed an explicit theory of relational trust in primary schools. They argue that schooling is defined by a series of role relationships and, in this regard, parents, teachers and the school's administrative leadership are all dependent on each other. Furthermore, because no one of these role-players enjoys complete power, all parties in school role relations remain vulnerable to each other. This vulnerability makes role relationships and the attendant mutual obligations and expectations even more significant in schools.

Principals depend on teachers to fulfil the mission of the

school but rarely observe the work of their fellow professionals because of the nature of classroom teaching. Also, parents depend on teachers to advance their children's education. In the case of poor parents, this relationship is doubly complicated and asymmetrical because poor parents do not have the means and intellectual wherewithal to challenge teachers. However, teachers also depend on parents to see to it that children do their homework, are not disruptive influences in class, and generally obey schooling rules and rites. Finally, teachers depend on each other because grade-appropriate teaching assumes that learners have mastered key cognitive skills from earlier stages of their school careers. If these skills have not been learned, then it is easy to see how a culture of reproach and blame can set in among teachers in schools. Relational trust is established through what Bryk and Schneider (2002) call 'discernment': role-players observe the actions of others against their existing obligations and expectations. If they discern a fit between actions, roles and obligations, relational trust is established and functions as an organisational property, and these relations are seen as lubricating the workings of effective institutions. Needless to say, if there are consistent ruptures between the enactment of the role relations and obligations, relational trust cannot be formed and you have a situation where internal discord and strife characterise school relations.

In short, relational trust, enacted through role relationships, obligations and expectations, constitutes one of the most important forms of the school's access to social capital.

Bryk and Schneider (2002) argue that relational trust is especially important for organisations that operate in turbulent external environments, depend heavily on information-sharing for their success and have decentralised decision-making structures. Schools clearly conform to this description, thus enhancing the importance of relational trust as a core resource for schools; but Bryk and Schneider (2002) appear even more determined to stress the importance of relational trust in situations that involve *change*. They argue that relational trust helps to blunt the risks and uncertainties associated with change and to reduce the transactional costs of decision-making during such difficult times. For example, if pervasive curriculum reform becomes policy, principals could rely on their professional teaching staff to change long-standing practices without the need to fight long and protracted battles. Relational trust implies

similar levels of support for the work of teachers from other teachers and the parent community. Bryk and Schneider (2002: 34) put it best when they summarise the importance of relational trust in schools:

Finally, relational trust sustains an ethical imperative among organisational members to advance the best interests of children. Participants in schools with high relational trust enact an interrelated set of mutual obligations with one another. (emphasis added)

In short, relational trust, enacted through role relationships, obligations and expectations, constitutes one of the most important forms of the school's access to social capital. However, Bryk and Schneider's (2002) theory is useful only if schools have varying levels of relational trust and if different levels of trust predict learner performance. Table 3.3.1 provides information on the importance of relational

trust and other school resource factors in predicting reading and mathematics productivity.

Teacher background variables appear to explain little of the differences in academic productivity in reading and mathematics, but small school size appears to be important for mathematics learning. This is also consistent with findings made by Lee, Smith and Croninger (1997), who argue that small schools that function like communities seem to work well for learners from disadvantaged backgrounds. Racially isolated black and Hispanic schools do not do that well, and the same qualification applies to high-poverty schools. Relational trust measures are significant for both reading and mathematics productivity after controlling for teacher variables, school composition and prior school achievement. An interesting finding is that schools with low levels of relational trust in 1991 have done well over a six-year period. However, given the strong positive effects of the other relational trust factors, Bryk and Schneider (2002) indicate

Table 3.3.1: Effects of changing levels of relational trust on improvements in reading and mathematics productivity, 1991–1996

	Reading	Mathematics
Teacher educational background, 1997	-0.0011	0.0465**
Teacher professional background, 1997	0.0009	0.0056
New teachers hired in first three years of reform (%)	0.0001	0.0012
Average years teaching in school, 1997	-0.0028	0.0045
Small school size	0.0392	0.0981**
Racial ethnic composition		
Predominantly African-American	-0.0682**	-0.1073***
Predominantly Hispanic	-0.0267	-0.1175**
Predominantly minority	-0.0816**	-0.1758***
Racially mixed	-0.0227	-0.1118**
Concentration of poverty	-0.0209*	-0.0353**
Low-income students (%)	0.0008	0.0008
Stability of student body	0.0123	0.0033
Prior school achievement, 1989	-0.0004	-0.0009*
Trust, 1991	-0.0887**	-0.0849*
Trust, 1994	0.0971***	0.1030***
Change in trust, 1994–1997	0.0366	0.0752**

Source: Bryk & Schneider (2002: 112, 113)

Note: *p<0.05; **p<0.01; ***p<0.001

that these schools most certainly would have seen an improvement in their relational trust levels.

What is progressive about Bryk and Schneider's (2002) version of social capital is that it does not assume that socio-economic class, race and ethnicity or gender predispose professional adults to 'possess' larger stocks of social capital. Rather, a resource such as relational trust is created by the 'moral' interactions of adult professionals among themselves and with the parent community. Unlike other definitions of social capital, which associate the latter with class, education and ethnic membership, relational trust could potentially be 'activated' in educational settings that are characterised by poverty and inequality. Without subscribing to the idea of 'silver bullets' (relational trust included), it is vital from a policy perspective to multiply the factors that appear capable of being manipulated in the service of better quality outcomes for poor learners. While a genuine transformation of economic relations in society is arguably the most sustainable way to end unequal access to quality education, relational trust offers policy-makers a useful resource that can be leveraged to make immediate changes to the schooling outcomes of poor learners.

Prior to South Africa's first democratically inclusive elections in 1994, the uncertainties and conflicts in the broader society were played out in educational institutions serving black communities. Principals, who were required to implement government policy, were often at odds with their teaching and professional staff, leading to a complete breakdown of trust relations. Also, teachers, because of their different professional and political affiliations, were also in conflict with fellow teachers, while the parent body was divided about the actions that unionised teachers took. Relational trust cannot be said to have been in high supply in these institutions, leading to a serious deficit in trust relations in many public schools. The post-1994 government inherited two debilitating legacies in black schools, namely unequal access to resources and unequal access to academic outcomes. The government's response to this situation involved a mix of policy, governance and resource solutions. Attempts were made to desegregate the supply of teachers, black schools were provided with additional teachers, a 'progressive' resources agenda was developed for all the main education sub-sectors, and new school governance arrangements were developed. No attempt was made to force the integration of learners.

School governance arrangements required the established of a parents-teachers' association (PTA) at primary schools and a parents, teachers and students' association (PTSA) at public high schools. Whatever one may think about these

arrangements, it has made possible some form of community ownership and involvement in schooling matters. If one views school governance as the mechanism that brings together adults (teachers and parents) for the benefit of young children's education, then school reform after 1994 could be said to have aided the process of forming and consolidating schools' social capital. However, many middle-class black parents opted to take their children out of the local township schools and place them in public schools in white suburban areas. Although it would be incorrect to aver that this form of socio-economic segregation took place only after 1994, there is little doubt that this phenomenon gathered strong momentum after the national elections. Consequently, local township schools were deprived of mobile and educated parents, who, when using their clout meaningfully, are predicted to impact positively on school processes and the academic climate at schools. Also, children of educated parents tend to have functional study habits, which could also influence the behaviour of their peers in positive ways. Thus, although the government had created a positive institutional mechanism to enhance school relations and trust, many poor schools were reeling from the effects of socio-economic school segregation.

THE EFFECTS OF SOCIO-ECONOMIC SEGREGATION ON SCHOOLING OUTCOMES

What exactly is the impact of socio-economic school segregation? Rumberger and Willms (1992) argue that schools that do not have significant proportions of middle-class parents have low levels of school resources and poorer academic outcomes. These authors make the point that the racial and socio-economic composition of schools plays a vital role in determining the academic climate and academic outcomes of schools. Statistically, 'compositional effects' are regarded as being as important as, if not more important than, the characteristics of the individual students who go to a particular school. This reflects the old maxim that it matters who you go to school with, and the authors are keen to point out that the average socio-economic status of schools continues to play a crucial role in academic climate and outcomes. Their research shows that the performance of learners from all classes tends to be higher on average in schools with high average socio-economic status. In the American context, Rumberger and Willms (1992) conclude that minorities, because of segregation, are less able to capitalise on contextual (or compositional) effects represented by high average parental education levels.

Rumberger and Palardy (2005) go one step further and

Table 3.3.2: Parameter estimates for the input model

Mean	Mathematics	Science	Reading	History	Composite
<i>Intercept</i>	8.800***	8.184***	6.251***	9.528***	8.163***
Student background					
<i>SES</i>	0.418***	0.686***	0.231**	0.277**	0.407***
School composition					
<i>Mean SES</i>	0.371**	1.171***	0.446**	0.473	0.609***
School structure					
<i>Catholic school</i>	1.085***	-0.028	0.497	0.406	0.488*
<i>Other private school</i>	0.781**	0.175	1.534***	0.654	0.856***
<i>Magnet</i>	0.035	0.669	1.010**	1.116**	0.667**
<i>Small</i>	-0.183	0.264	-0.093	-0.054	0.004
<i>Large</i>	0.204*	0.500**	0.609***	0.362	0.405***
<i>Extra large</i>	0.395**	0.702**	0.800***	0.115	0.471**
Parameter variance					
Within students (level 1)	8.215	22.444	17.628	21.504	6.697
Between students (level 2)					
<i>Initial achievement</i>	29.797***	24.557***	30.001***	26.039***	22.884***
<i>Achievement growth</i>	10.906***	7.121***	12.230***	2.819***	6.797***
Between schools (level 3)					
<i>Initial achievement</i>	3.730***	3.553***	2.256***	4.504***	2.608***
<i>Achievement growth</i>	2.309***	2.605***	2.224***	4.260***	1.733***

Source: Rumberger & Palardy (2005: 2 033)

Note: *p<.10; **p<.05; ***p<.01

offer an explanation as to why the socio-economic composition of schools matters. However, their first statistical model is intended to separate the effects of individual socio-economic status and school socio-economic status on average achievement. This model has also been used to establish whether school structure and school type affect average achievement in the subject areas depicted in Table 3.3.2 (which captures the parameter estimates for their input model).

The results show that both individual socio-economic status and school socio-economic status predict average achievement in the five outcome measures. In fact, in science and the composite outcome measures, school socio-economic status has a larger effect size than individual socio-economic status. Table 3.3.2 also shows that students

attending private schools other than Catholic schools had higher achievement growth than other students. Also, learners who attend large and very large public schools appear to be doing better. The results about the size of public schools contradict the findings from Bryk and Schneider (2002) and Lee et al. (1997) that small schools appear to be a better academic environment, especially for learners from poor socio-economic backgrounds.

What explains the importance of school socio-economic status? Rumberger and Palardy (2005) show that the effects of the socio-economic composition of schools are largely explained by association with school features such as academic climate and teacher expectations or belief in the ability of their students. Put differently, when academic

Table 3.3.3: Parameter estimates for the final model

Mean	Mathematics	Science	Reading	History	Composite
<i>Intercept</i>	8.787***	8.173***	6.230***	9.530***	8.152***
Composition					
<i>Mean SES</i>	-0.349	0.748***	-0.22	0.096	-0.008
Structure					
<i>Catholic school</i>	0.768**	-0.161	0.253	-0.082	0.208
<i>Other private school</i>	0.384	-0.018	1.269**	-0.196	0.504
<i>Magnet</i>	-0.123	0.601	0.887**	0.964**	0.539*
<i>Small</i>	-0.233	0.201	-0.163	0.05	-0.05
<i>Large</i>	0.271	0.537**	0.673***	0.391	0.456***
<i>Extra large</i>	0.521**	0.794***	0.960***	0.123	0.569***
Process					
<i>Teacher expectations</i>	0.161	0.270*	0.183	0.178	0.218*
<i>Homework time</i>	0.13***	0.061	0.126**	0.141**	0.115***
<i>NAEP composite</i>	0.117***	0.033	0.073	0.097*	0.082**
<i>Unsafe</i>	-2.753***	-2.022*	-3.548***	-0.238	-2.261**
Parameter variance					
Within students (level 1)	8.213	22.440	17.625	21.500	6.695
Between students (level 2)					
<i>Initial achievement</i>	29.791***	24.551***	30.006***	26.038***	22.880**
<i>Achievement growth</i>	10.923***	7.127***	12.224***	2.852***	6.807***
Between schools (level 3)					
<i>Initial achievement</i>	3.357***	3.279***	2.077***	4.280***	2.371***
<i>Achievement growth</i>	2.152***	2.554***	2.110***	4.144***	1.671***

Source: Rumberger & Palardy (2005: 2 034)

Note: *p<0.10; **p<.05; ***p<.01

climate factors are taken into account, the average socio-economic status of schools is no longer statistically significant. Parents who have higher education and income levels are able to exercise more influence on how the school is managed and demand accordingly greater accountability from teachers. In these situations, teachers also expect more from their students, thus perpetuating a cycle of belief, actions and results. This explains why students who go to such schools benefit from the contextual effects, which are

themselves conditioned by the socio-economic composition of such schools. This version of social capital advanced by Rumberger and Palardy (2005) is more traditional, because it attributes greater levels of agency to parents and schools that have the necessary financial and intellectual skills. It equates social capital with what people have (key attributes) instead of something that can be created through moral and positive human interactions.

Table 3.3.3 shows the results of their final model, when

controlling for academic climate or process factors in addition to the school 'structure' factors.

The point is that school governing bodies potentially represent an important opportunity to cement positive social relations and trust at schools. Also, the adults who are more likely to use such structures for their own and other children's benefit have moved house or school and in some instances have left local communities altogether. The relational trust theory developed by Bryk and Schneider (2002) does not make any assumptions about parents who could most forcefully play their part in realising relational trust, but common wisdom seems to suggest that mobile parents' desertion of township schools may have impacted negatively upon schools' accountability and academic climate. Therefore, an account of social capital in South African schools must probably engage both the relational trust components and the socio-economic composition of schools. While it is unlikely that mobile and affluent parents will place their children in poor township schools, a concerted campaign is needed to sensitise people about the negative effects of socio-economic segregation. Also, given the poverty status of many parent communities, we clearly need to examine whether there are more appropriate forms of involvement for poor parents that would build trust and the social capital stock at such schools. In the absence of high levels of education and income in the parent community, how can such parents best support their children's education?

GOVERNMENT RESPONSE TO THE PLIGHT OF POOR SCHOOLS

How has the government responded to the challenges facing poor schools, and has this helped to halt the erosion of schools' social capital bases? The targeting of government services in the social services sector was a natural corollary of attempts to marry fiscal prudence and redress objectives. This was also consistent with the government's view that direct fiscal support must be provided to what it called 'the poorest of the poor'. Also underlying the targeting approach in education – although rarely articulated explicitly – has been an attempt to compensate poor communities not only because they are poor, but also to revive township schools as viable education sites.

Thus, the government's response to increasing school socio-economic segregation was to put more resources at the disposal of poor township schools. In this regard, it began implementing a new school financing policy in 2000, which aimed to provide the largest share of non-personnel recurrent expenditures to the poorest schools in each province. In

2007, 40 per cent of the poorest learners were exempt from paying school fees, thus helping to eliminate access problems that still plagued poor schooling communities. Recent announcements by prominent politicians suggest that the exemption threshold will be moved to accommodate 60 per cent of the poorest learners in each province.

In addition to public ordinary schools, the government has also begun expanding pre-school (more specifically Grade Reception) services to the poorest of the poor. The government wants Grade R services to be universal by 2010, which means that at least one Grade R class must be attached to each public ordinary school.

Further compensation for the poorest of the poor primary school learners is provided through the national school nutrition programme. This programme provides free meals and/or snacks to indigent learners at South Africa's primary schools for most of the schooling days during the academic year.

Although personnel expenditure is still inequitably spread across rich and poor schools, the government has made massive strides in providing better teaching and non-teaching support to poor schools.

Poor communities and schools also benefited from targeted infrastructure spending. Poor schools either had new classrooms built or new schools were established in poor communities. Although personnel expenditure is still inequitably spread across rich and poor schools, the government has made massive strides in providing better teaching and non-teaching support to poor schools. Also, heads of provincial education departments reserve a small portion of personnel funding to allocate additional teaching posts to poor schools. This works especially well in those subjects such as mathematics and science, where there is a dearth of qualified teachers in the system, generally, and in poor schools, more specifically.

The policy of putting more resources into poor schools was supplemented by small-scale quality initiatives such as the Dinaledi schools and quality improvement districts. In the specialised mathematics and science (Dinaledi) schools, the government wanted to develop excellence in a few targeted high schools. Resource constraints necessitated the selection of a small number of high schools, and the government felt that key lessons, benefiting the entire system, could come from such small-scale experiments (DoE 2001). The original policy made provision for the

upscaling of the Dinaledi project, and in 2005, new mathematics and science participation and quality goals were set. While the Dinaledi schools were earmarked to receive additional funding, extra investments tended to focus on expenditures at the margins, such as on textbooks and other learner and teacher support materials.

Thus far, we have identified one expression of social capital in schools, namely relational trust, proposed by Bryk and Schneider (2002). The social composition of schools has also been identified as producing effects that may impact on schools and learners' access to social capital. In this regard, we have referred to peer and friendship networks, which are considered to play a meaningful role in learners' academic achievement (Quillian & Redd 2006). Schools that have high average socio-economic status appear to be producing functional peer and friendship networks that work to the academic advantage of their members. In theory, poor learners attending such schools should be able to capitalise on these contextual effects, but there is also evidence that even if integration does take place, distinct groupings may continue to flourish at such schools (Rumberger & Palardy 2005; Sujee 2004). Other compositional effects associated with affluent parents are greater school resources, a more demanding academic environment and greater school-level accountability. Our description of the policy responses of the government makes it clear that most of its efforts have focused on providing better resources to poor schools. This has included new funding policies for schools, as well as an initial attempt to redistribute teachers in the schooling system. There has been no attempt to alter the 'catchment' areas of schools so as to change schools' social composition, and very little effort has gone into building relational trust in and between schools. The establishment of PTAs can aid in the process of building trust in schools, but the overall usefulness of this instrument seems to be affected by the flight of middle-class parents from local township schools.

In evaluating the government's policy response to the problems it inherited in 1994, it is useful to review the distinction between 'bonding' and 'bridging' social capital. Bonding social capital refers to 'the maintenance and strengthening of existing social relations within a group', while bridging social capital refers to 'the establishment of new networks of trust, risk-sharing and cooperation between groups or individuals' (Verwey & Lefko-Everett 2007: 5). With this distinction in mind, some of the key social developments and outcomes are discussed briefly below.

- Targeting implies the selection of beneficiary schools, and, within the context of limited resources, flawed

differentiation among schools of similar socio-economic standing occurred. Many of the misclassified schools are physically located in the same area as other neighbourhood schools that were placed in the poorest quintiles. While such a process undoubtedly affects the relationship between the education authorities and schools, relations between schools could also become damaged, thus lessening between-school trust. In poor areas, co-operation among schools might be needed to counter negative community influences that affect all schools alike. Co-operation is significantly reduced if schools are located in neighbourhoods with low efficacy (Quillian & Redd 2006). These are neighbourhoods where communities do not tackle common social ills together, which simply increases their powerlessness.

- The government's lack of subsidisation of poor learners at affluent schools breaks down relational trust and solidarity in such schools. There are recorded instances where learners and teachers discriminate against those who are unable to pay school fees. Heterogeneity and diversity are less likely to be tolerated under these circumstances, thus further reducing poor learners' chances of capitalising on the socio-economic compositional effects at such privileged schools. While this is more likely to take place in affluent schools, such behaviour has also repeated itself in poor fee-charging schools where principals have been desperate to make up deficits in financing.
- Illegal exclusion of learners from schools on the grounds that their parents are unwilling to pay cannot be good for building trust relations in schools. These acts of social injustice make it difficult for children to develop an institutional affiliation and experience security.
- The scramble for 'good schools' in the post-1994 era has also done its damage to relations within and between schools. Very little educational research has focused on the phenomenon where schools 'cream off' the best learners, thus leading to serious academic consequences for township schools where many of these learners reside. Also, internal perceptions that schools' cultures will be changed by the presence of new arrivals have often led to violence and discord in South African schools. Such perceptions are perpetuated by both learners and teachers at some schools, indicating the depth of antagonistic relations and the low levels of relational trust.

Both forms of social capital, namely bonding and bridging capital, appear to have been stretched, due partly to the policy and governance developments outlined above. Competition for scarce resources hardly breeds trust, as has been pointed out by researchers examining social capital in diverse communities (Letki 2005; Quillian & Redd 2006). However, these developments also throw light on the policy course chosen by the government. By opting to make resource redress a fundamental part of its strategy, the government needed to seek buy-in from important stakeholders for this to have worked. Put differently, cogent and coherent explanations and reciprocal listening to its social partners could have gone some way towards developing consensus on education resourcing strategies going forward. This would have allowed everyone associated with education delivery to have celebrated the ‘convergence’ or equalisation of per capita expenditures at the provincial level. However, because no one prepared for such an event, and because no one knows what convergence actually means, a potential policy success story simply passed by unnoticed.

The development of relational trust must also be seen against the background of the ferocious pace of policy and school reform after 1994. Had there been higher levels of trust within and between South African schools, then many school reform efforts could have been fast-tracked. Some would argue that the pace of reform itself has been a contributing factor in the breakdown of trust relations between schools and education authorities, and between principals and teachers. We still hear of incidents where outcomes-based teaching training is provided over school holidays, but many teachers simply choose not to attend such important events. The same argument can be made for whole school evaluation, where trust relations between principals and teachers have not been repaired, thus restricting important remedial interventions. This highlights the primacy of leadership at schools, and, given our fractious recent past, relational trust becomes actually more important. Principals have been torn apart by competing pressures from education authorities, teachers and parents. Yet, some of the key building blocks of relational trust are consistency and integrity in the actions of the principal. This means many schools’ dysfunctional behaviour often starts with principals who no longer command the respect of the teaching and parent bodies.

This brings us to the question of what can be done to improve the situation of poor schools as far as improved academic outcomes and depleted levels of social capital are concerned.

CRITICAL INTERVENTIONS

The following interventions are urged:

- We need a national social compact in South Africa, in which we consciously commit to develop key national priorities for the next 10–15 years. One of the outcomes that must be struggled for is a re-evaluation of the importance of education provisioning, which should include a consideration of resources, appropriate national and provincial research, quality outcomes and implementation strategies.
- We need to renew focus on the importance of the public sector and to agitate for the better funding and support of key public social services such as education and health. The private education sector is too small and institutionally ill-prepared to deal with major educational issues affecting poor communities.
- We need a far better understanding of the effects of socio-economic school segregation. Most of the insights have been developed in American and British contexts, and it remains an imperative to research this phenomenon in South Africa. Are compositional effects equally important in South African high schools?
- We also need to better understand how poor schools in the townships that have lost significant numbers of learners from well-heeled backgrounds have coped. What kind of social capital do these schools have and is it relevant to describing their performance? More importantly, we need to establish if social capital is a relevant concept in explaining the performance of poor and rich schools alike.
- We need to conduct more research on how poor communities access government opportunities, and should invest in case studies that examine how poor communities have converted targeted spending opportunities into gains for their children and the adult community.
- If the literature predicts that parents with money and education act in a way that benefits their own children and the schools they attend, what possibilities are available to poor parents who lack these attributes? How have poor parents supported their children’s schools, and is this different from the social capital interventions of rich parents?
- Other social capital questions that we need to answer relate to the conclusions reached by Lee et al. (1997) that *smaller* schools, which in effect are *communities*,

and which have restricted curriculum choices, serve historically disadvantaged communities better.

This article accepts the position that the transformation of society at large to ensure equitable social and economic relations should be the ultimate objective of any social intervention. However, such processes do not happen overnight; hence, the recourse to tools, concepts and experiences that can be used to reduce inequality of educational outcomes. While the empirical usefulness of these concepts has been supported in First World contexts, much more local research in education is needed before we accept imported theoretical insights. Nevertheless, what is blindingly obvious is that institutions and institutional trust have occupied such a central place in post-1994 South Africa that we may as well examine relational trust and related concepts more fully, especially in schools.

And while relational trust has been construed as a *resource* in First World contexts, its 'establishment' in South African schools could arguably be construed as an *outcome* in itself. Unlike other contexts where the relational trust (resource) and academic outcome nexus is accepted without question, perhaps it is worthwhile for now to treat relational trust as a valuable outcome in its own right. For us to get to a point where schools and communities ravaged by poverty are less divided may be looked upon as one of our greatest challenges and potential achievements.



Chapter four

Poverty and inequality

“The success of social welfare programmes...is dependent not only on the amount available for expenditure but also on the infrastructure related to the grant and on the broader governance system.”

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overview

POVERTY AND INEQUALITY

Kalie Pauw and Sumayya Goga, in their discussion of the challenges that the current economic environment poses for the social grant system, suggest that a new ANC government will have its work cut out to provide sufficient poverty alleviation under the prevailing circumstances. Having already reached a significant threshold in its expenditure on grants as a percentage of GDP, the government will find it increasingly difficult to extend real expenditure in the context of a projected budget deficit. Pauw and Goga, therefore, suggest that urgent attention should be paid to the development of more efficient labour market policies to stem the tide of a growing stream of social welfare dependents.

Ronelle Burger and Servaas van der Berg, in their assessment of the public health care system, suggest that the prioritisation of primary public health care since 1994 has succeeded in broadening access to health care. Disconcertingly, however, outcome inequalities between those at the top end of the system and those at the lower end have increased. Their research points to significant inefficiencies as far as material and human resources management is concerned. Since the health budget is already substantial by comparative standards, they foresee that the narrowing of outcome inequalities will have to be addressed by an improvement in the management of resources.

Access to shelter is one of the most basic sources of human security, and the way in which this is dealt with by different spheres of government has far-reaching implications for social cohesion and societal stability. Marie Huchzermeyer, in the final section of this chapter, argues that an incorrect interpretation of the Millennium Development Goals (MDGs), as they relate to the eradication of slums, is increasingly informing approaches towards housing in informal settlements. She differentiates between a positive, indirect approach to such housing, which promotes the improvement of informal settlements, and a negative, direct approach that focuses on relocation to formal housing. The latter, which often includes the protracted stay of uprooted individuals in temporary transit locations, appears to have become the national norm, and has also become integrated into provincial legislation. Against this background, she strongly suggests a return to the originally intended positive, indirect approach, as was promoted by the Housing Act of 1997, the Breaking New Ground Policy of 2004 and UN-Habitat.

Income poverty and inequality scorecard

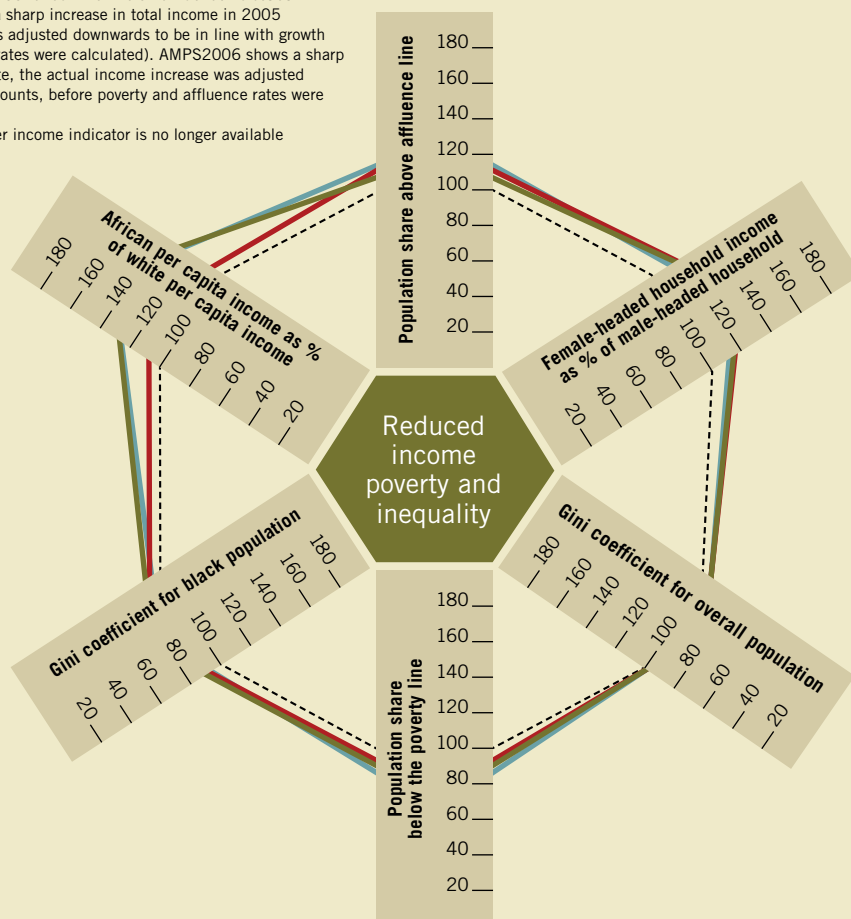
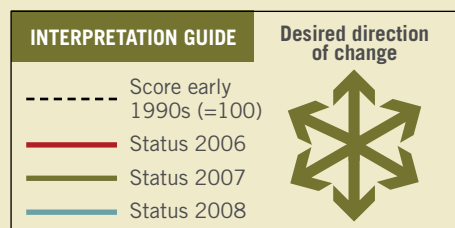
Transformation goal: Reduced income poverty and inequality						
Desired outcome	Indicator	Status 1990–1994	Status 2006	Status 2007	Status 2008	Positive development
Reducing income poverty	Percentage of the population below the poverty line	50.3%	46.9% (2003)	45.5% (2004)	43.1% (2006)	↑
Creating wealth	Percentage of the population above an 'affluence' line	9.2%	9.8% (2004)	9.6% (2005)	10.5% (2006)	↑
Reducing inequality	African per capita income as a percentage of white per capita income	10.2%	11.9% (2004)	13.0% (2005)	12.9% (2006)	↓
	Earnings of female formal sector workers as a percentage of those of males*	74.8%	86.7%	86.1%	83.7%	↓
	Gini coefficient for overall SA population	0.67	0.68 (2004)	0.68 (2005)	0.68 (2006)	↔
	Gini coefficient for black population	0.55	0.60 (2004)	0.62 (2005)	0.59 (2006)	↑

Source: Calculations by S van der Berg and D Yu using All Media Products Survey (AMPS) data, except for earnings of females, which are derived from the *Labour Force Survey*.

Notes: The poverty line is set at R3 000 per person per year in 2000 rands. The line of 'affluence' is set at R25 000 per person per year in 2000 rands. AMPS2005 shows a sharp increase in total income in 2005 (to derive a conservative estimate, the actual income increase was adjusted downwards to be in line with growth according to the national accounts, before poverty and affluence rates were calculated). AMPS2006 shows a sharp increase in total income in 2006 (to derive a conservative estimate, the actual income increase was adjusted downwards to be in line with growth according to the national accounts, before poverty and affluence rates were calculated).

* This indicator has been incorporated, as the AMPS-based gender income indicator is no longer available

The Income Poverty and Inequality Scorecard and Star provide a snapshot impression of changes in key indicators of poverty and inequality. They present a picture of mixed achievement. All measurement scores for 2008, with the exception of the Gini coefficients for the overall population and for the black African population, have improved against the original baseline scores. On a year-on-year basis, the 2008 scores point to improvements in the percentage of the population that live below the poverty line and those that live above the affluence line. The measurements for African per capita income as a percentage of white per capita income, and the earnings of female formal sector workers as a percentage of those of males, have deteriorated over the same period. The year-on-year Gini coefficient has remained unchanged.



Access poverty scorecard

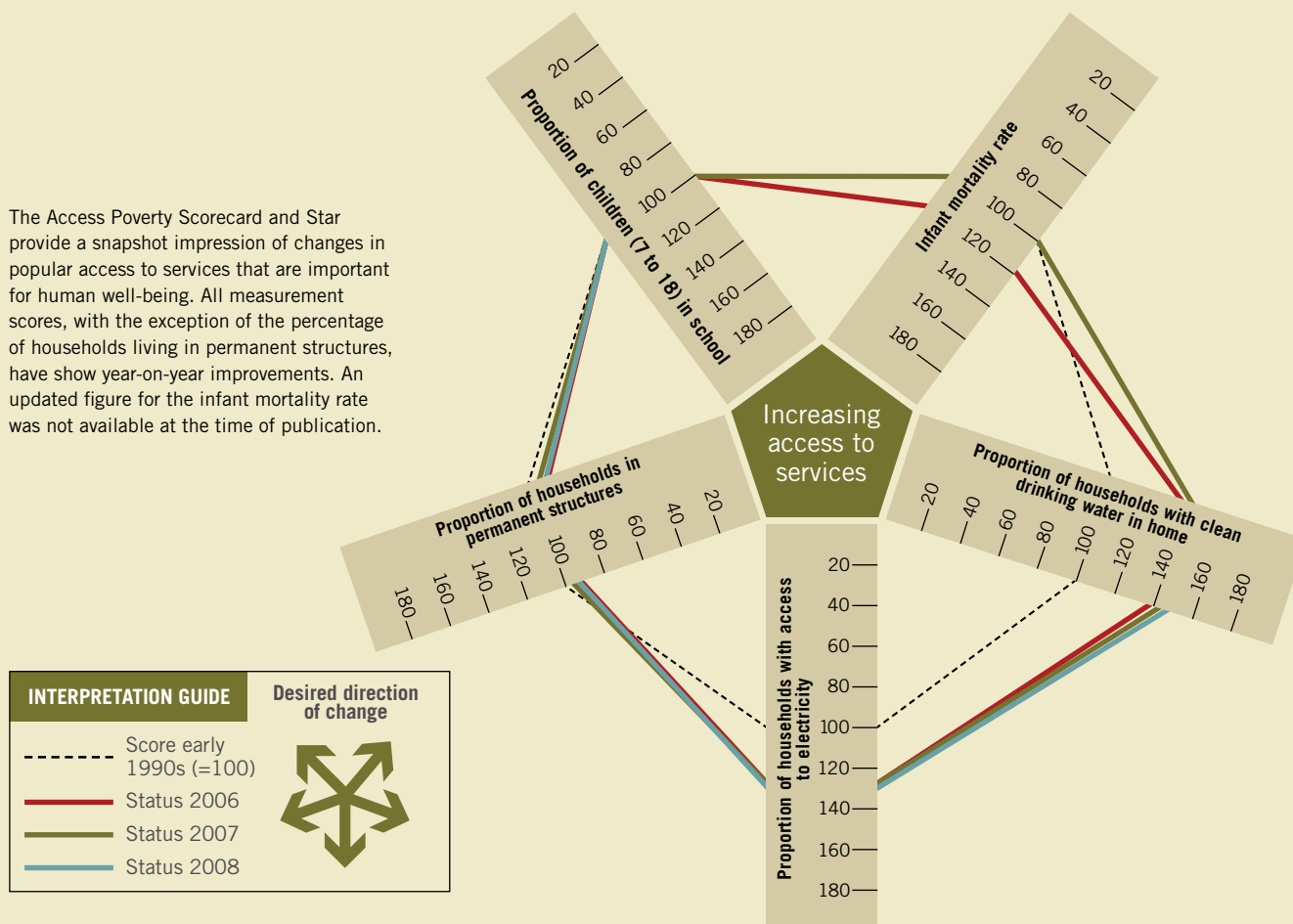
Transformation goal						
Reduced poverty through better access to services						
Desired outcome	Indicator	Status 1995	Status 2006	Status 2007	Status 2008	Positive development
Reduced access poverty	Percentage of households living in a permanent structure ¹	77.6%	73.6% (2004)	74.2% (2006)	73.9% (2007)	↓
	Percentage of households with access to electricity ¹	62.9%	80.5% (2004)	80.2% (2006)	81.5% (2007)	↑
	Percentage of households with access to clean drinking water in the home ¹	48.9%	67.8% (2004)	69.9% (2006)	71.5% (2007)	↑
Reduced education poverty	Percentage of children 7 to 18 in school ¹	95.3%	94.3% (2004)	94.1% (2006)	94.7% (2007)	↑
Reduced health poverty	Infant mortality rate ²	45 (1990)	53.6% (2005)	45.2% (2006)	n.a.	↔
	Estimated HIV prevalence rate for population ³		10.9% (2006)	11.1% (2007)	11.0%	↑

1. Sources: Stats SA, *October Household Survey* 1995; *General Household Survey* 2006, 2007

2. Sources: 1990 from *UNDP Human Development Index* (1990); 2005 & 2007 from Stats SA, *Statistical Release P0302 Mid-year Estimates* <www.statssa.gov.za> (no figure available for 2007)

3. Sources: Statistics South Africa, *Statistical Release P0302 Mid-year Estimates* <www.statssa.gov.za>

The Access Poverty Scorecard and Star provide a snapshot impression of changes in popular access to services that are important for human well-being. All measurement scores, with the exception of the percentage of households living in permanent structures, have show year-on-year improvements. An updated figure for the infant mortality rate was not available at the time of publication.





review

RESPONDING TO CHALLENGING TIMES: THE ROLE OF SOCIAL SECURITY IN SOUTH AFRICA

Sumayya Goga and Kalie Pauw

The prevailing economic climate provides an opportunity for a renewed look at the role of the social welfare system in providing a safety net to the poor and unemployed in South Africa. Social security systems worldwide play an important role in providing safety nets for vulnerable individuals and households. They ensure a more equitable distribution of income and allow households to manage risks and to overcome short-term poverty. From a social stability perspective, they are important in countering the negative social externalities associated with poverty. The South African Constitution gives socio-economic rights the same status as civil and political rights. Thus, by law, the government has to ensure the promotion of dignity, equality and freedom by giving every South African the basic human right to social protection (Taylor 2002). Undoubtedly, the risks associated with the recent slowdown in the economy and high inflation rates will bring the social welfare system into focus for the newly elected government. While the social security system in the past has benefited from budget surpluses, recent news reports suggest that the budget surplus for the coming year has largely been committed to rescuing Eskom and paying higher wages to public sector workers (*Business Day* 04.09.08). This financial constraint may well limit the extent to which the new presidency can utilise social welfare as a policy tool to deal with the problems of poverty and unemployment.

INTRODUCTION

One of the defining characteristics of the South African economy is the persistently high level of unemployment and poverty. Unemployment is recognised as a structural problem, in the sense that the unemployed generally lack the skills required by employers. The poverty problem, in turn, is inextricably linked to these failures in the labour market. Addressing poverty, therefore, is primarily a case of addressing structural unemployment. Together with the elderly, the disabled and primary caregivers, these structurally unem-

ployed poor people make up the truly vulnerable in our society. Despite the fact that unemployment is central to the poverty problem in South Africa, there is currently very little direct support in terms of social welfare for able-bodied unemployed persons. This reflects the government's view that able-bodied adults should 'enjoy the opportunity, the dignity and the rewards of work' (Matisonn & Seekings 2001) rather than rely on handouts.

South Africa employs a targeted means-tested grant system, i.e. only certain subgroups of the population who earn below a certain income threshold are covered. Only about 40 per cent of the poor have access to social security in South Africa; this was identified by the Taylor Commission as one of the social welfare system's major shortcomings (Taylor 2002). Despite the limited coverage, the welfare system in South Africa has been shown to be effective in reducing poverty by a significant margin (see, for example, Woolard 2003), since the means test ensures that poor people are reached directly. Additionally, many poor people, including the unemployed poor, gain indirectly from the welfare system through their attachment to households where at least some members are grant recipients (see Van der Berg 2007).

It is especially during times of economic slowdown, which is often associated with job losses, that this social-sharing model causes increased dependence on grant recipients. Thus, the recent economic slowdown, coupled with rising food prices and transport costs, has resulted in calls for the government to expand its social security system to include more poor people. Such expansion, however, implies an even higher financial burden on the state, and many feel that this is untenable, especially in times of economic uncertainty. Already up to one-quarter of the South African population relies directly or indirectly on welfare transfers (*The Mercury* 21.08.06), more than the share of the population that actively contributes to government revenue through personal income taxes. An alternative viewpoint is that large income inequality in South Africa makes it possible to transfer money to a significant number of poor people (Alderman 1999), especially if the very wealthy in society can be taxed more heavily in order to finance such transfers.

The aim of this study is to consider the various debates around expanding the welfare system within the context of welfare policy, economic policy and the broader economic and political environment. From the outset, it should be clear that the dilemma facing the government has many facets: ignoring calls to expand the welfare system may lead to rising social instability; heeding these calls has financial implications and may jeopardise other spending commit-

ments. We briefly discuss these risks and consider some of the policy options for the government.

ECONOMIC POLICY AND SOCIAL WELFARE: A TEN-YEAR REVIEW

Analyses reveal that trends in social welfare spending in South Africa over the last decade or more are closely linked to the dominating economic policies and the economic climate of the time. In order to understand these trends, therefore, it is appropriate to consider the broader economic context. The post-apartheid government inherited an economy in which GDP was contracting rather than growing. The challenge thus lay in boosting growth while simultaneously addressing poverty and unemployment. In 1996, the Growth, Employment and Redistribution Strategy (GEAR) was adopted. GEAR prioritised tight fiscal and monetary policy and sought to deal with the challenges of unemployment and poverty indirectly through economic growth. The consensus was that GEAR achieved its goal in terms of fiscal austerity, but that it was less successful in its objectives of achieving accelerated growth and reducing unemployment and poverty.

The post-GEAR period (between 2001 and 2005/06) was characterised by a shift in policy stance towards a more direct role for the government in promoting economic expansion, while micro-oriented policies were envisioned to address specific issues around income redistribution, poverty and

unemployment. After the tight control over state finances in the GEAR period, the government could now afford to 'embrace a more confident and expansionary vision' (Manuel 2001). The post-GEAR period was marked by firmer economic growth, while the South African Revenue Service was able to broaden the tax base and maintain revenue collection well above budgeted rates.

The year 2006 marked the start of yet another, albeit slight, shift in policy stance, this time with the launch of the Accelerated and Shared Growth Initiative for South Africa (ASGISA). ASGISA consists of a set of interventions that include a greater attention to skills development, government-funded infrastructure provision and small business regulation. In placing greater focus on long-term funding initiatives to boost economic growth, the government appears to have reoriented its spending priorities towards more sustainable projects.

Turning next to an analysis of welfare policy and spending, it is interesting to note that real expenditure on social grants remained fairly stable during the GEAR period between 1996 and 2001. In fact, as a share of GDP, grant expenditure actually declined from 2.5 per cent to 2 per cent during this period (Pauw & Mncube 2007). As shown in Table 4.1.1, there was only a moderate increase in the number of beneficiaries between August 1997 and April 2001 (approximately 7 per cent per annum), while the real value of per capita grants remained constant.

Towards the end of the GEAR period, the Taylor Commission was requested to make a proper assessment of the social

Table 4.1.1: Social grant beneficiary numbers by type of grant

Type of grant	Aug. 97	Apr. 2001	Apr. 2002	Apr. 2003	Apr. 2004	Apr. 2005	Jan. 2006
<i>Old age</i>	1 742 253	1 877 538	1 903 042	2 009 419	2 060 421	2 093 075	2 126 373
<i>War veterans</i>	11 495	6 175	5 266	4 594	3 961	3 340	2 889
<i>Disability</i>	754 830	627 481	694 232	953 965	1 270 964	1 307 459	1 311 148
<i>Grant in aid</i>	9 720	9 489	10 332	12 787	18 170	23 131	26 217
<i>Foster care</i>	42 917	85 910	95 216	138 763	200 340	256 325	299 865
<i>Care dependency</i>	3 815	28 897	34 978	58 140	77 934	85 818	88 679
<i>Child support</i>	222 715	974 724	1 907 774	2 630 826	4 309 772	5 633 647	6 894 428
<i>Total</i>	2 787 745	3 610 214	4 650 840	5 808 494	7 941 562	9 402 795	10 749 599

Source: National Treasury (2005)

security system. The commission found that up to 60 per cent of the poor did not receive any form of income support, while a large proportion – up to 95 per cent – of unemployed people could not access unemployment insurance. Given the large number of poor people who fell through the gaps in the social security system, one of the key recommendations in the Taylor Report was the introduction of a non-targeted universal grant called a basic income grant (BIG). Such a universal grant would not only widen the current social welfare provisioning of the state, but it would also cover the unemployed, thus ensuring that no individuals fell through the gaps in the system.

A BIG was never adopted, but remains hotly debated within policy circles; hence, we return to this topic in the next section. The government opted instead to commence with a rapid expansion of the existing grants. As is evident from Table 4.1.1, the number of grant beneficiaries rose significantly between 2001 and 2006 at an average annual rate of about 24 per cent. The expansion of the child support coverage was most significant, probably because this was still a fairly new grant and awareness grew rapidly. Initially, the child support grant was available to qualifying caregivers with children under the age of seven years, but the age limit was extended to 14 years by 2005.

The rise in beneficiary numbers was accompanied by large nominal increases in grant amounts. Table 4.1.2 indicates that the nominal value of all grants grew substantially between 2000/01 and 2005/06, particularly the child support grant and the grant in aid. It must be noted, however, that the values of these two grants are substantially smaller

the expansion in grant beneficiary numbers of the child support grant, in particular, can be viewed in the context of the low value of the grant compared to other grants

than all other grants. For instance, the child support grant stood at just 23 per cent of the old age grant in 2005/06. In contrast, the old age grant, the disability grant and the care dependency grant were the largest in value in 2005/06. Thus, the expansion in grant beneficiary numbers of the child support grant, in particular, can be viewed in the context of the low value of the grant compared to other grants.

An analysis of trends in grant values is incomplete without also considering inflation trends. In this regard, Pauw and Mncube (2007) note that the per capita value of old age pensions and child maintenance grants, the two main types of grant in the South African social security system, grew respectively by approximately 2 and 6 per cent per annum in real terms during the post-GEAR period, where real growth rates take into account the inflation rate over the same period. As a result of the expansion in both the coverage and the real value of grants, social grant expenditure as a share of GDP also rose substantially from 2 per cent in 2001, reaching a maximum of about 3.4 per cent by 2005/06.

Further analysis by Pauw and Mncube (2007) shows that the government's own planned welfare expenditure levels, as

Table 4.1.2: Nominal values of grants in rands by type of grant

Type of grant	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Percentage change
<i>Old age</i>	540	570	640	700	740	780	44%
<i>War veterans</i>	558	588	658	718	740	780	40%
<i>Disability</i>	540	570	640	700	740	780	44%
<i>Grant in aid</i>	100	110	130	150	170	180	80%
<i>Foster care</i>	390	410	460	500	530	560	44%
<i>Care dependency</i>	540	570	640	700	740	780	44%
<i>Child support</i>	100	110	140	160	170	180	80%

Source: National Treasury (2005, 2008)

per the three-year rolling budget system, were adjusted upwards every year between 2001 and 2006. In retrospect, it appears as if much of this apparently unplanned increase in welfare expenditure was made possible by tax revenue overruns. By 2006, however, Finance Minister Trevor Manuel was quoted as saying that 'the poor could not be taken care of on the basis of tax overruns', as this is unsustainable (*The Mercury* 21.08.06). This statement coincided with the adoption of ASGISA, which signalled a reorientation of the government's spending priorities towards what could be considered a more sustainable investment in the long-run growth potential of the economy. The implication for welfare spending is that the government is likely once again to adopt a more conservative spending approach.

WHAT ARE THE CHALLENGES?

While the ANC-led government has done much to redress the past injustices inherent in the economic and political systems, the unemployment and poverty challenges remain critical. In addition to this, the global economy has faced its own challenges recently with rising oil and food prices, coupled with a slowdown in international growth. This has had, and is likely to continue to have, an impact on the local economy. The South African economy has also been faced with its own concerns, including the energy crisis, political uncertainty in the run-up to the 2009 elections and inflationary pressures, brought about mostly by rising global food and oil prices. In the light of the various challenges facing the economy, there is currently much media speculation around the issue of whether the economy is on the brink of a recession. The consensus seems to be that we are facing at least a prolonged period of weak growth, which suggests a slowdown in employment creation (see, for instance, *Financial Mail* 21.02.08). The significance of this is that higher levels of unemployment and rising costs of living impact directly on welfare levels, particular of the poor. In turn, this may place pressure on the welfare system. In this section, we reflect on these challenges and consider the possible implications for welfare policy.

Unemployment and expansion of the social welfare system

The experience of unemployment is associated with a variety of negative economic, social and psychological consequences. Aside from reducing output, wasting productive power and eroding human capital due to depreciation of unused skills, unemployment leads to social exclusion, which can cause

suffering and a deterioration in family life and social values (Kingdon & Knight 2000). Thus, it is recognised that employment is not just a means by which to sustain life, but rather it fulfils multidimensional functions. While it is difficult to measure the consequences of unemployment, studies have analysed statistical indicators of psychological well-being and mental health in relation to labour market status, and most of them confirm the relationship between unemployment and psychosocial distress (Du Toit 2003). In terms of policy response, the primary aim should always be to reduce unemployment rather than allowing dependency on welfare transfers in the long run. However, in the short run, social security may play an important role in providing a safety net to unemployed persons. In fact, one economic rationale of providing a safety net for the able-bodied unemployed poor is that it may allow them to take the risks necessary to find employment. Thus, in the light of the slowdown in the economy and the possibility that unemployment levels may stay high or even rise in the near future, a reconsideration of the role of the social welfare system is once again necessary.

Although the social grant system in South Africa covers a significant proportion of people – latest figures suggest that there are currently 12 million grant beneficiaries – a large proportion of South Africa's poor are not covered. Many of these make up the unemployed poor. The government continuously faces pressure to expand its grant system in order to provide cover for these people. During the post-GEAR period, the social welfare system was expanded by increasing the number of people covered by existing grants, rather than by introducing new grants. This continues to be the preferred method used by the government to reach more people; for example, the qualifying age for men eligible to receive the old-age pension was reduced from 65 to 63 years, with further provision to reduce the age of eligibility to 60 years by 2010 (DSD 2008). There have been indications from the Department of Social Development (DSD) recently that the eligibility age for the child support grant would be extended over the next two to three years to cover children up to 18 years of age (*Mail & Guardian* 20.02.08).

Coverage can be extended also by adjusting the income requirements of means-tested grants. For instance, it was reported recently that the DSD plans to adjust the means test for the child support grant in line with inflation (*The Mercury* 02.06.08). The means threshold for the child support grant was set in 1998 at R800 a month for urban children living in formal housing and R1 100 for rural children or those living in informal dwellings, and surprisingly has been left unchanged until now. This problem has been specific to the

child support grant; the income thresholds for other grants like the old-age pension and the disability grant increase every year to keep up with inflation.

While expanding the existing social welfare system appears to be a route that the government will continue to take, the question of whether new programmes should be implemented remains a relevant one. The institution of a universal BIG, in particular, continues to be debated (see, for example, *Cape Times* 22.07.08). Although a BIG is seemingly easily administered and avoids the complications of means testing, the major concern is around the fiscal feasibility of such a vast welfare programme. While some argue that it is indeed affordable to transfer an amount in the order of (say) R100 to R200 to every person in South Africa, analyses by Thurlow (2002) and Van der Berg (2002) suggest otherwise. Ultimately, the cost of such a transfer scheme would have to be financed through the tax system, and it is exactly here where the fiscal feasibility has been questioned. Thurlow's research shows that the institution of a BIG of R100 per month (at 2000 prices) would require an average increase of 4 percentage points in the current VAT collection rate or, alternatively, an increase in the overall average income tax rate by approximately 4.4 percentage points. The view of the Congress of South African Trade Unions (COSATU) is that a BIG should be financed through a tax on the rich (called a 'solidarity tax'). In this regard, Van der Berg's (2002) calculations show that the top marginal tax rate would have to be increased from 40 to 66 per cent in order to obtain the required revenue. Such drastic changes to tax collection rates are likely to be met with fierce opposition.

In early 2004, the Minister of Finance announced that the government's approach would be to 'extend social security and income support through targeted measures', rather than through a universal BIG. This, he argued, could be considered 'a more balanced strategy for social progress and sustainable development' (Manuel 2004). Ironically, however, the Minister of Social Development, Zola Skweyiya, appears to remain an ardent supporter of a BIG (*Mail & Guardian* 20.11.06), which creates some confusion around what future welfare policies might look like, and is perhaps also an explanation for the ongoing debate despite Minister Manuel's firm views on the matter.

As far as targeted programmes are concerned, one consideration is to introduce so-called conditional cash transfer (CCT) programmes. CCT programmes are commonly linked to school attendance and visits to health clinics; in other words, the grant is available to beneficiaries conditional upon them making use of certain public services on a regular basis. Such grants are considered superior to unconditional

The success of social welfare programmes...is dependent not only on the amount available for expenditure but also on the infrastructure related to the grant and on the broader governance system

grants, as they induce investments in human capacity development, the rationale being that higher levels of education and improved health ultimately lead to higher productivity levels, thus contributing to economic growth.

The success of social welfare programmes, and in particular CCTs, is dependent not only on the amount available for expenditure but also on the infrastructure related to the grant and on the broader governance system. The World Health Organisation (WHO 2008), for instance, emphasises the importance of the quality and availability of health services to ensure success of CCT programmes linked to health care. They stress that 'supply-side interventions to deal with potential problems, such as low service quality, staff shortage or medical supply bottlenecks, are the first prerequisite for a successful CCT' (WHO 2008). Historically, CCT programmes have been more popular in developing countries in Latin America than in Africa. A possible explanation for this is the low level of accessibility and quality of education and health care services in African countries (IDS 2006). Schubert and Slater (2006) find that there are important contextual differences between Latin American and African countries that may well make CCT programmes in Africa inappropriate; the concerns include the quality and quantity of service provision, as well as the capacity to implement conditionality in African countries.

Despite being one of the more developed nations in Africa, South Africa faces similar service delivery constraints, which may impact on the effectiveness of CCT programmes. In their study, Pauw and Mncube (2007) consider the option of introducing CCT programmes linked to health and education in South Africa. Citing research by Poswell (2006), they argue that, as far as demand for education services is concerned, CCT programmes are unlikely to have a major impact, since school enrolment in South Africa is already much higher than in many of the countries where these programmes have been successfully implemented. The challenge in the South African context is educational outcomes and the quality of teaching offered in South African public schools, rather than the level of enrolment. In

turn, while a CCT programme linked to health care may be beneficial, it is unlikely that the health care system is currently able to respond to a potentially large and abrupt increase in demand for public health care (see Burger & Van der Berg in this publication). The authors argue that CCT programmes do not hold much appeal in South Africa and, furthermore, that the high administrative burden of these programmes makes them questionable in a country where welfare service delivery has long been considered weak. Finally, while the newly instituted South African Social Security Agency appears to have improved welfare service delivery, the addition of complex welfare programmes could be considered premature for this relatively young agency.

While the above has highlighted possibilities for expansion of the social security system, it must also be recognised that part of the debate on the expansion of the social security system has been around the so-called 'dependency culture' associated with social grants. The argument that social welfare creates a 'dependency culture' rests on the assumption that grants create a disincentive to work and, thus, people may end up preferring to rely on state support rather than to find employment. Evidence presented by Noble and Ntshongwana (2008) suggests, however, that this may not be a valid concern in South Africa. Based on the Social Attitudes Survey of 2006, Noble and Ntshongwana (2008) find, firstly, that grants do not discourage people from searching for employment and, secondly, that people do not consider themselves better off claiming grants than working. The survey results showed that South Africans generally have a strong commitment to working, suggesting once again that unemployment is mainly associated with

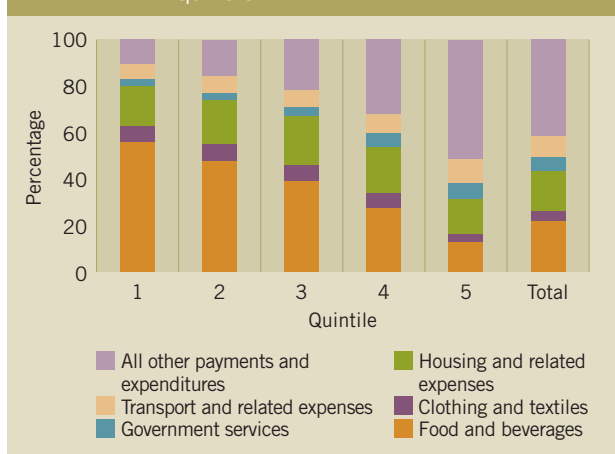
structural conditions in the labour market rather than lack of motivation, on the one hand, or the design of the welfare system, on the other.

Although there is much talk among policy-makers and interested parties, there is still no clear indication that an entirely new grant type will be added to the social security system in South Africa. Indications are that budgetary commitments towards the social welfare system will not be expanded much in the short-to-medium term. As a share of GDP, welfare grants are set to remain constant at 3.3 per cent for the 2008/09 and 2009/10 budget periods, and are expected to decline to 3.2 per cent by 2010/11 (see National Treasury 2008). This should be seen in the context of the government's economic growth and revenue expectations having been adjusted downwards, and government expenditure in general set to increase at a slower rate than in preceding years. Furthermore, indications are that a large part of the budget surplus for the coming year has been committed to the Eskom bail-out and to increasing salaries of public servants, thus presumably leaving little room for 'unplanned' expansion of the social welfare system.

Dealing with inflationary pressures

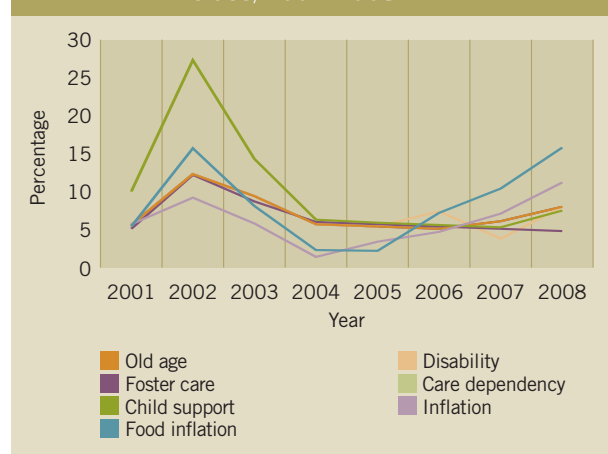
As mentioned above, one of the current concerns for the economy is the issue of inflationary pressure due to rising global oil and food prices. While grants are adjusted regularly to compensate recipients for inflation (as measured by the national consumer price index, CPI), it can be argued that the recent bout of inflation has affected the poor disproportionately and, thus, that annual inflation adjustments to grants may not be adequate.

Figure 4.1.1: Expenditure shares by household quintile



Source: Stats SA (2002)

Figure 4.1.2: Inflation and nominal growth in grant values, 2001–2008



Source: Stats SA (2002)

Inflation in South Africa is calculated using expenditure weights (or shares) derived from aggregate or economy-wide expenditure on a specific basket of goods. Given wealthier households' dominance in aggregate expenditure, these weights are biased; rather than reflecting the expenditure pattern of the household in the middle of the income distribution, they most closely reflect the spending pattern of households at the upper end of the income distribution (Oosthuizen 2008). Figure 4.1.1 shows the expenditure shares of households in different quintiles based on expenditure data for 2000 (quintile 1 represents the poorest 20 per cent of households). Firstly, it is clear that expenditure patterns differ significantly across household groups, with poorer households spending a much greater proportion of their income on food. Secondly, the aggregate expenditure pattern (as shown in the right-hand bar of the figure) is much closer to the expenditure pattern of wealthy households in quintile 5, given that this wealthiest group accounts for almost two-thirds of overall consumption in the economy.

From the above, it is intuitive that the inflation experiences for poor households (i.e. those located in quintiles 1 and 2) will differ from those of wealthy households in the economy. The implication is that the national CPI is in fact a weak indication of the true inflation faced by the poor. A much better indication would be provided by quintile-specific CPIs, for example. Oosthuizen (2008) considers trends in poor and non-poor inflation, and finds that neither wealthier nor poorer households experienced consistently higher or lower inflation than the average between 1998 and 2006. He finds, however, that over shorter time periods, there is a marked divergence in inflation experienced by households at different points along the income distribution.

The recent experiences of high food inflation have been thought to adversely affect the poor, in particular. Figure 4.1.2 indicates that food inflation has been higher than overall inflation in all the years from 2001 to 2008, except 2005. Given poor households' high food expenditure share, it follows that the inflation experienced by the poor is higher than the national inflation rate. Therefore, in the present context of high food inflation, it is argued that poor households are currently worse off than the average CPI would suggest. This is certainly relevant from a social welfare perspective, since grants are targeted at the poor while grant amounts are adjusted annually using the national average CPI rather than the 'poor-inflation rate'.

Figure 4.1.2 indicates that increases in grant amounts from 2001 to 2006 outstripped the inflation rate. This is particularly true of the child support grant, which grew rapidly between 2001 and 2004. However, the high rates of

overall inflation in the 2007 and 2008 periods have not been met with corresponding increases in the grant amounts. Furthermore, if one takes the food inflation rate as a proxy for inflation experienced by the poor, the disparity between the growth in grant amounts and 'poor-inflation' is even higher. The evidence, thus, appears to suggest that in the current context of high 'poor-inflation', the annual adjustments to social welfare grant amounts have left the poor worse off than before. Given the severity of the food inflation crisis, a strong argument can be made to increase welfare transfers targeted at poor households (as well as the means thresholds) by the 'poor-inflation'.

However, the issue of 'poor-inflation' versus overall inflation is not straightforward. There may be times when, for instance, the cost of services (captured in 'other payments' in Figure 4.1.1) might be rising sharply relative to other commodities. During these periods, the 'poor-inflation' may be growing at a lower rate than the national CPI. Thus, the poor may be better off with the national inflation adjustment in these periods when the bulk of the inflationary pressure does not come from a rise in prices of expenditures of the poor, such as basic foodstuffs. However, in the same vein, there may be periods when there is a decline in inflation related to a slower growth in prices of expenditures of richer households. Adjusting grant increases in line with the CPI during these periods may render the poor worse off, given that the price of their expenditure baskets may be rising faster than the national CPI.

CONCLUSION

Despite continuous pressure on the South African government, it appears as though new social welfare grants will not be introduced in the next few years. While overall expenditure on grants was increased significantly in the period 2001–2006, budget plans now suggest that expenditure on social welfare as a percentage of GDP will remain stable and even decline marginally in the next two to three years. Additionally, although there has been a renewed focus on poverty through the Anti-Poverty Strategy launched recently by The Presidency, more sustainable alternatives to dealing with poverty seem to be favoured over simply expanding the social welfare system. This conservative approach comes at a time when future growth and employment prospects are weak, the implications of which may well be an increased dependence on social welfare or related support measures. The associated risks are increased social instability and despondency among constituents. However, the new leadership elected in the

2009 national election may choose to pursue more left-leaning programmes in dealing with poverty.

The unemployment challenges facing the economy arguably remain the most crucial of all. In the absence of plans to provide additional support to unemployed persons through the welfare system during times of economic hardship, the government should consider the use of active labour market policies as a direct intervention aimed at improving the functioning of the labour market. Policies such as the expanded public works programmes appear to have been unsuccessful at reducing poverty and improving skills levels (see McCord 2008), and this suggests that a broader, more comprehensive approach is needed. Recently, for example, a wage subsidy was proposed by the International Panel on Growth (the Harvard Group) as a way of intervening in the labour market (see Levinsohn 2008). While much

research is still needed in this area, South Africa's experience with 'learnerships', which essentially are training-linked wage subsidies, is that they have been unsuccessful in generating above-equilibrium employment, as intended (see Pauw, Oosthuizen & Van der Westhuizen 2008).

In short, the challenges are immense. What remains clear, though, is that the government is able to do more for the poor during periods of strong economic growth, as was seen between 2001 and 2006. Furthermore, during this period, good employment performance served to lessen the burden of poverty further. The policy lesson is that growth and employment creation remain key in dealing with poverty in South Africa in the long run.



research

HOW WELL IS THE SOUTH AFRICAN PUBLIC HEALTH CARE SYSTEM SERVING ITS PEOPLE?

Ronelle Burger and Servaas van der Berg

INTRODUCTION

Following the country's political transition in 1994, most South Africans had high expectations that unjust apartheid era systems would be transformed rapidly into more equitable arrangements. Health care was no exception. In 1992/93, South Africa's health spending – both private and public – was among the highest in the world at 8.4 per cent of GDP. Yet the country was not among the top 60 in terms of health status indicators (McIntyre et al. 1995, in Goudge 2000), and compared poorly with many of its African neighbours in terms of health outcomes.¹

This is interpreted generally as evidence of just how skewed and unequal the access to and quality of health care was during the apartheid years. In 1992/93, 60 per cent of health spending was devoted to serving just 23 per cent of the population. The approach to health care was biased in favour of more affluent patients with a focus on curative care and higher-level services, rather than environmental health and preventative care.

The inequities and ineffectiveness were reflected in health indicators: the infant mortality rate was six times higher among African families than it was among white households in 1992/93. In the same year, it was also calculated that the infant mortality rate was three times higher among those in the poorest fifth of the population than it was amongst those in the most affluent fifth of the population (Gilson & McIntyre 2002).

Since 1994, the government has introduced a number of measures to combat the inequities of the system. To increase access to health care, it prioritised primary health care and preventative care. More funds were allocated towards primary health care, and the network of public clinics was expanded dramatically over a short period of time, with the focus on underserved or needy areas. To make health care more affordable for poor households, primary health care fees were eliminated in 1996.

Complementary interventions such as the provision of running clean water and improvements in sanitation have

raised the standards of environmental health in impoverished neighbourhoods. This is vital because health is influenced not only by government health services, but by a range of social influences and personal choices, including the hygiene of living and work environments, the health choices of peers and community members (this is relevant, for instance, to the likelihood of contracting infectious diseases) and personal lifestyle choices.

This article reflects on the impact of these policy changes by asking how well the South African health system is serving its people. The first section examines changes in health outcomes and indicators over the past decade: despite much investment in making health care more equitable, many health outcomes – including those not affected directly by HIV/AIDS – remain disappointing and unequal.

The second section investigates the failures and successes of the efforts to transform the public health care system. Since 1994, there have been clear signs of progress in the accessibility and affordability of public health care. Despite these positive changes, there are reasons to be concerned about the public health care system. There are indications that the poor quality of care may often obstruct the translation of wider availability of affordable health care into improved health outcomes and better lives. Users of public health facilities often complain of rude staff, long waiting times and medicine not being available, and regard these problems as being serious enough for a considerable share of the very poorest families to prefer to pay for private health care rather than visit a free public health facility.

The third section considers the causes of these concerns about quality of health care and attempts to chart a way forward. In trying to discover the root of this problem, researchers and policy-makers initially focused attention on the distribution of scarce resources such as doctors and nurses across public and private health centres. However, more recent work suggests that there is also evidence of deficiencies in the management and the effectiveness of the public health care system that require consideration (Swanepoel & Stuart 2006; Burger & Grobler 2007). We argue that there is little room for increasing spending from current levels and, furthermore, that more money is unlikely to solve the core problems. We find that while additional resources are expected to make a difference, the focus should be on enhancing effectiveness through better management – in particular, better management of the system's valuable and scarce human resources, its medical staff. In addition, it is vital that the public health care system becomes more accountable and responsive to its users.

HEALTH OUTCOMES AND INDICATORS

Much effort has been invested in making health care more accessible and equitable, but have these efforts translated to better health and better lives?

Despite a considerable investment in making the government health system more pro-poor, there has been little sign of progress in the key indicators of the health system's performance and the health status of South Africans since the apartheid era. While immunisation coverage has improved from 63 per cent to 85 per cent over the last decade, and the TB cure rate has progressed from 54 per cent and 62 per cent,² both rates are still not at the target levels required for developing countries.³ Infant mortality (mortality before the age of 1 year) increased from 45 per 1 000 live births in 1990 to 56 in 2006, while life expectancy at birth fell from 63 years to 51 years over the same period (see Table 4.2.1). Large discrepancies in the health outcomes of different groups of South Africans have persisted: in 2004 the life expectancy at birth for black Africans was 49, while it was 64 for white South Africans (Day & Gray 2007). Similarly, in 2003 the infant mortality rate was 45 per 1 000 live births for Africans, 41 for coloured South Africans and 25 for Asians. There was no comparative indicator for white South Africans for 2003, but in 1998 infant mortality was 47 per 1 000 live births for Africans and 11 for whites (Day & Gray 2007).

Of course, signs of progress in health outcomes may be marred by the devastating impact of HIV/AIDS, which overshadows many of the health status indicators and has placed additional strain on the health system. The estimated

prevalence of HIV among the population rose from 2.1 per cent to 11.1 per cent between 1995 and 2007.⁴ It appears that the spread of HIV prevalence may have slowed down in recent years, but given the resources and energy that have been devoted to this battle and the destructive effect that HIV/AIDS continues to have on human lives and South African communities, this can hardly be seen as satisfactory progress. While undoubtedly the AIDS epidemic has been a tremendous challenge, research suggests that the health care system faces several other constraints and that poor outcomes cannot be blamed solely on the impact of HIV/AIDS.

Additionally, while some may view the HIV/AIDS epidemic as an external factor, on the grounds that it is a fast-spreading epidemic with a dramatic impact on quality of life and life expectancy and with no known cure, others may argue that the lack of progress in fighting this disease is linked with flaws and shortcomings in the government's approach to health – arguably either a failure of strategic prioritisation or a lack of evidence-based policy-making – and therefore cannot be viewed entirely as an external factor.

ACCESS, AFFORDABILITY AND QUALITY OF THE HEALTH CARE SYSTEM

Why has there been so little progress in health outcomes despite the efforts to make the system serve the poor better? While HIV/AIDS may be partly to blame, there appear to be other problems.

As already noted, it is vital to acknowledge that health outcomes are shaped by influences and factors that are

Table 4.2.1: Comparison of health indicators for a selection of African countries, 1990–2006

Country	Life expectancy at birth (years)			Infant mortality rate (per 1 000 live births)			Maternal mortality ratio (per 100 000 live births)
	1990	2000	2006	1990	2000	2006	2005
<i>Botswana</i>	66	50	52	45	74	90	380
<i>Mauritius</i>	69	71	73	21	16	12	15
<i>Mozambique</i>	45	49	50	158	122	96	520
<i>Namibia</i>	63	61	61	60	50	45	210
<i>South Africa</i>	63	58	51	45	50	56	400

Source: WHO data base (for explanatory notes, please refer to the latest version of the World Health Statistics publication available at <http://www.who.int/whosis/>)

external to the formal provision of health care. The most plausible catch-all measure for the conglomerate of factors that can influence health outcomes may be the poverty level. Although poverty trends remain controversial, there is an increasing consensus that there has been a considerable decrease in both the poverty rate and the numbers living in poverty since 2000 (Van der Berg, Louw & Yu 2007; Meth 2007). Additionally, we know that there have been considerable advances in improving sanitation among poor households,⁵ there has been a remarkable increase in life satisfaction, which appears to be concentrated among formerly disadvantaged groups (see Burger 2007a), and there have been significant investments by NGOs and the government in increasing public awareness about health risks (ranging from poor personal hygiene to HIV/AIDS).⁶

the poor may report only serious ailments and afflictions as illnesses, while the more affluent may describe flu or a worrying symptom as an illness

Most of these external factors are unlikely to have had a large negative impact on health outcomes. HIV/AIDS, which reasonably can be considered to be an influence largely (although certainly not entirely) external to the health system, is likely to have had a significantly negative impact on health outcomes, but it is difficult to gauge the severity of this influence. Thus, we opt to study the effectiveness of the transformation of the health care system by directly investigating three of its key features: accessibility (physical), affordability and quality.

Access to health care

There is evidence of progress in improving the physical proximity and affordability of health care (see Tables 4.2.2 and 4.2.3). These factors have translated into greater access to medical care for the poorest; among the indigent, there has been a remarkable increase in the likelihood of visiting a health worker when ill. Additionally, we now observe little difference in the likelihood of visiting a health worker between the richest and the poorest families (see Table 4.2.4). There are various explanations for this apparent contradiction; some argue that poor and affluent individuals may not attach the same connotation to the word 'illness' and that the poor may report only serious ailments and afflictions as illnesses, while the more affluent may describe flu or a worrying symptom as an illness. Such systematic differences in

Table 4.2.2: Ratios of medical practitioners in the public sector per 100 000 uninsured population across provinces, 2005–2007

Province	2005	2006	2007
<i>Eastern Cape</i>	16	16	17
<i>Free State</i>	21	21	23
<i>Gauteng</i>	26	30	30
<i>KwaZulu-Natal</i>	24	28	30
<i>Limpopo</i>	14	15	17
<i>Mpumalanga</i>	22	22	21
<i>Northern Cape</i>	37	35	41
<i>NorthWest</i>	14	15	15
<i>Western Cape</i>	36	39	34
<i>Total</i>	22	24	25

Source: Day & Gray (2007)

the understanding of the term across income groups will have a significant impact on the interpretation of this indicator. Nonetheless, as long as one can assume that this systematic bias in the interpretation of the concept has remained unchanged between 1993 and 2003, it does not detract from the importance of the observed increased equality in access to health workers across income groups.

Although access to health care has improved for the poor, distance is still cited as a reason for not consulting a health worker when ill, and a considerable proportion of households live more than an hour's travel time away from the nearest hospital or clinic (see Table 4.2.5).⁸ However, Van Niekerk and Van der Berg (2008) find no evidence that distance from health facilities is still a major constraint to accessing primary health care.

Affordability of health care

The elimination of fees for public health care appears to have had an impact on the affordability of health care. Affordability ratios can be used to capture affordability. The ratio measures the expense of a health care visit as a proportion of the household's per capita non-food expenditure.

Income group ⁷	1993	1995	2000
1	10%	2%	2%
2	6%	1%	2%
3	3%	1%	1%
4	2%	1%	1%
5	3%	1%	1%

Sources: PSLSD (1993); Stats SA (1995a, 1995b); Stats SA (2000a, 2000b); Stats SA (2003)

Note: The affordability ratio is the cost of a health visit as a percentage of household non-food expenditure (5% is usually viewed as the benchmark)

The calculated ratios are usually interpreted by comparing them to a benchmark ratio. If ratios are higher than the benchmark, this is regarded as an indication of excessively high charges. Using this intuitive measure, Burger and Grobler (2007) report a notable improvement in the affordability of health care between 1993 and 2000. In 1993, the poorest 40 per cent were paying health service charges that could be considered to be beyond their means – according to Demery's (2003) proposed benchmark of 5 per cent – but by 2000, affordability ratios were below benchmark levels for all income groups.

Income group	1993	1995	2003
1	72%	78%	84%
2	78%	80%	83%
3	83%	82%	82%
4	86%	87%	83%
5	84%	88%	87%

Sources: PSLSD (1993); StatsSA (1995a, 1995b); Stats SA (2003)

Quality of health care⁹

User satisfaction is lower for the public health facilities than it is for private ones, and this gap appears to have widened in recent years.¹⁰ The 2003 *General Household Survey* (Stats 2003) showed that the most frequent complaints of public health care users were long waiting times, rude staff,¹¹ and a lack of drugs. These complaints are serious enough to deter the use of public health care. We find that even the very poorest households often prefer to pay for private care when ill, rather than visiting a public health care facility, which is available free of charge or at heavily subsidised rates.¹² It is

Income group	1993				2003			
	Clinic		Hospital		Clinic		Hospital	
	30–59 minutes	60+ minutes	30–59 minutes	60+ minutes	30–59 minutes	60+ minutes	30–59 minutes	60+ minutes
1	36%	29%	25%	51%	23%	15%	50%	20%
2	35%	22%	27%	52%	29%	7%	40%	24%
3	32%	18%	34%	36%	30%	10%	44%	16%
4	24%	14%	36%	25%	21%	6%	40%	13%
5	27%	14%	34%	15%	14%	5%	21%	4%

Sources: PSLSD (1993); Stats SA (2003)

Income group	1995	2003
1	21%	25%
2	23%	28%
3	29%	28%
4	37%	40%
5	65%	76%

Sources: Stats SA (1995a, 1995b); Stats SA (2003)

of concern that there has been an increase in the share of indigent households that prefer to pay for private health care (see Table 4.2.6).

HOW CAN THE QUALITY OF HEALTH CARE BE IMPROVED?

We observe improvements in the accessibility and affordability of public health care, but there are problems and possible indications of a worsening in the quality of care. Although this is clearly not the only remaining problem and although experts may have different views on its severity, it is not controversial to say that it appears to be the dimension in which there has been the least progress over the last decade.

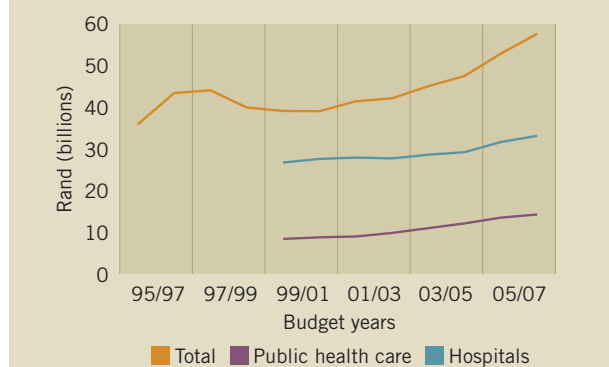
For the remainder of this chapter, we thus consider how the quality of health care may be improved. Does the public health care system require more funds, more resources or better management?

More spending is not the answer

Figure 4.2.1 shows that spending on public health care has grown in real terms, i.e. disregarding the effects of general price inflation. However, there have been complaints that the rise in public spending has been too modest, given the vast needs and shortages that the system faces (see, for instance, McIntyre et al. 2006).

While few will dispute that there are vast needs and shortages in health care, this in itself is not enough to argue for a dramatic increase in spending on public health care. There is broadening consensus that the total government budget cannot be greatly expanded, and any major redistribution of spending shares within the government budget would necessitate a sharp cut elsewhere. Such a move

Figure 4.2.1: Trends in public health care financing (in 2007 prices)



Note: Programme expenditure estimates available only from 1999/2000 onwards

would be quite controversial, seeing that other sectors, such as education and welfare services, also suffer resource constraints and face spiralling demand.

It also seems unrealistic to expect a further expansion in the combined private and public health expenditure, given that South Africa's overall health care expenditure is already on a par with that of developed countries – around 8 per cent of GDP in 2005, according to McIntyre et al. (2007). Seemingly due to the rapid growth of private sector health expenditure,¹³ at a time when the government system was considered to be overloaded and constrained by a shortage of funds and resources, it has been proposed that the country should consider securing additional funds and resources for the public health care system via a social health insurance scheme (see, for instance, McIntyre, Doherty & Gilson 2003). More recent schemes have been less ambitious and intrusive than the ideas proposed initially, but at the same time the newer versions have abandoned most of the potential for cross-subsidisation and some of the opportunities for cost control. These more recent schemes are less risky and less disruptive, but offer far less upside potential in terms of additional revenue for the public health sector.¹⁴

Proponents of social health insurance usually argue that such institutional arrangements will divert more resources to the public system, which will eventually result in better service delivery to the poor. Nevertheless, these proposals appear to be an irresponsible gamble, given the lack of empirical evidence in their favour and the substantial disruption that would almost certainly follow their introduction.¹⁵

If it is unlikely that the government's health budget can be expanded dramatically, should the targeting of the budget towards the poorest then be improved? Research suggests

that spending is already reasonably well targeted and that the scope for improved targeting of spending is likely to be limited. Most of the richer households are not covered by the public health care system, as they prefer to opt for private doctors and hospitals. Additionally, since 1994, the government has attempted to make its health spending more equitable, both in terms of geography and in terms of income groups. Budget shifts have increased the proportion of the health budget devoted to pro-poor health services such as clinics and primary health care. Burger and Grobler (2007) demonstrate that these shifts have had a noticeable effect on spending equity: the government spent more on health care for the poorest families in 2003 than it had in 1995. This is attributable mostly to the large shift of spending in favour of clinics and primary health care, which is more accessible to poor households, but also a small shift towards the poorer segments of the population within clinic spending itself. Furthermore, there have been discernable improvements in the geographical equity of spending (McIntyre et al. 2007).

Even if increased spending were an option, it is important to emphasise that spending alone is unlikely to solve the problems faced by the public health care system. In many cases, money is not the problem. Thus, we find that funds are allocated to provide for additional posts, but the government fails to fill these posts (see Table 4.2.7) and, for these and other reasons, large shares of the budgets allocated to the poorest provinces remain unspent (see, for instance, Blecher & Harrison 2006). Additionally, the work of Palmer et al. (2003) indicates that the public health care sector may be inefficient: they found that the sample of private clinics they examined managed to provide a superior quality of service to that of the sample of public clinics examined,¹⁶ the authors concluding that these findings emphasised the important role of management and efficiency.¹⁷ In a study of Gauteng public hospitals, Kibambe and Koch (2007) found high levels of inefficiency and poor quality of data management.

Attracting more doctors to the public system is key

While there are many measures that can be used to gauge the distribution of resources in the health care system – including the availability of drugs, hospital beds, specialists, doctors and nurses – the most appropriate may be access to a doctor.

There is evidence of wide disparities in access to doctors for private and public sector patients. If the simplifying assumption is made that private sector health workers serve only the population with health insurance, and public sector health workers only the population without such insurance, then there would be roughly 1 general doctor per 600 individuals in the private sector, versus 1 per 4 200 in the

Table 4.2.7: Proportion of posts vacant in the public health sector across provinces, 2007

Province	Medical practitioners	Health professionals
<i>Eastern Cape</i>	33%	33%
<i>Free State</i>	35%	42%
<i>Gauteng</i>	27%	33%
<i>KwaZulu-Natal</i>	40%	36%
<i>Limpopo</i>	32%	20%
<i>Mpumalanga</i>	42%	43%
<i>Northern Cape</i>	51%	42%
<i>NorthWest</i>	43%	42%
<i>Western Cape</i>	15%	19%
<i>Total</i>	34%	33%

Source: Day & Gray (2007)

public sector. The disparity is even larger for specialist doctors: approximately 1 per 500 people in the private sector, and 1 per 11 000 in the public sector (McIntyre et al. 2007). However, such a comparison greatly exaggerates the resource differential, as private sector doctors also serve many of those not covered by insurance (Van Niekerk & Van der Berg 2008), as Table 4.2.6 makes clear. Once this is considered, there would still be about three times as many general doctors relative to population available in the private than in the public sector, rather than seven times as many as estimated by the comparisons cited above.

There is also a problem with the distribution of resources *within* the public system: poorer and more remote communities are not getting their share of resources (see Table 4.2.2),¹⁸ and experience more problems in staffing their facilities (Gilson & McIntyre 2007). Table 4.2.7 shows that in poorer and more rural provinces such as the Eastern Cape and Mpumalanga, the proportion of vacant health professional posts is generally higher than for more affluent and urbanised provinces such as the Western Cape and Gauteng.

Given that quality of care is closely associated with access to a doctor, the short supply of doctors in remote and poor

areas is concerning. Since the expansion of the network of public clinics, travel distance to the nearest health centre has been dramatically reduced (see Table 4.2.5), and the likelihood of seeing a health worker when ill is now similar for the rich and the poor. However, presumably due to the new tiered structure where nurses and less expensive resources act as gatekeepers to the health system's scarcer and more expensive resources, poor patients' access to doctors has deteriorated (see Table 4.2.8). While this should not necessarily be seen as a failure of the system, it does highlight the trade-off between accessibility and quality of health care.

While the quality of health care is highly dependent on qualified and motivated staff, the Department of Health has done too little to attract or retain competent, skilled and experienced staff. In fact, low salaries and poor working conditions have prompted a mass exodus of health workers, educators and social workers from the public sector. McIntyre et al. (2007) quote studies by Cornell et al. (2001) and Van den Heever (2007) showing a sharp drop in the public sector's share of resources: in the early 1980s, 40 per cent of doctors worked in the private sector, but by 1990 this had increased to well over 60 per cent and had exceeded 70 per cent by the late 1990s. There have been similar trends for other health workers. Additionally, a substantial number of health workers are migrating abroad.¹⁹ McIntyre et al. (2006) report that in 2001 the total number of trained South African doctors working in five Organisation for Economic Co-operation and Development (OECD) countries was 8 921, compared with the 11 332 South African doctors working in the local public sector.²⁰ These factors are expected to have contributed to the high vacancy rates for

health professional staff in public clinics and hospitals (Chabikuli et al. 2005).

Human resource management appears to be particularly weak in the health sector. Public sector health employees' list of grievances includes low salaries,²¹ poor working conditions, unsatisfying jobs, unreasonable work loads, a lack of recognition, low morale due to the HIV/AIDS crisis, a lack of job security and weak management (Ntuli & Day 2003; Chabikuli et al. 2005). Due to what appears to be deficient foresight, planning and resource allocation,²² the number of nurses in clinics has not been increased sufficiently to meet the rise in demand for their services after the elimination of user fees for primary health care.²³ Consequently, nurses are reportedly overburdened and many suffer from low morale (Chabikuli et al. 2005). Many nurses also complain that they were not informed or consulted prior to the introduction of the abolition of user fees (Walker & Gilson 2004, in Chabikuli et al. 2005).

Encouragingly, there are signs of a growing recognition of the need to create favourable conditions to attract staff. The human resource plan for the health sector specifies that health professionals in the public sector should receive reasonable remuneration and have attractive working conditions. The introduction of more mid-level workers and community health workers is intended to lighten the burden (Ntuli & Day 2003). There are some positive indications that the ministry is slowly converting to the persuasion that competent and experienced nurses and doctors will always have many alternative employment options and that the only way to lure these workers to the public sector or to retain them is by ensuring that the public sector work environment is satisfying and pleasant and the remuneration is in line with alternative offers. For instance, the government has launched rural and scarce-skill allowances and has promised considerable annual salary increase for nurses and doctors (McIntyre et al. 2007).

In contrast to the schemes described above that use incentives to attract staff, newly planned legislation will give the department more control over the placement of health workers. Via this new scheme, all private hospitals and practices will be required to apply for a certificate of need to obtain permission to retain or open a health facility. This planned legislation harks back to a mentality of trying to control the market for scarce resources, which is likely to be both futile and counterproductive, given that doctors and specialists can still easily migrate abroad if there are no suitable options for them locally.

Table 4.2.8: Percentage of health visits that provide access to a doctor, by income group

Income group	1995	2003
1	62%	43%
2	67%	49%
3	72%	50%
4	76%	63%
5	75%	85%

Sources: Stats SA (1995a, 1995b); Stats SA (2003)

Improved management is vital

There appear to be inefficiencies and ineffectiveness lurking within the public health system. Ndletyana (2000) argues that the government has lost many experienced, skilled and competent managers partly because of its insistence on the equalisation of pay. In 1994, it was decided that the 25:1 ratio between the pay levels of the highest and lowest ranks was excessive. Over the next three years, the government gradually increased the wages of the lowest levels in an attempt to reduce the ratio to a more acceptable 12:1. Over this same period, the salaries of high-level managers in the public service stagnated or declined. Ndletyana (2000) concludes that this contributed to the loss of skilled and competent managers. He reports that as a consequence, 49 per cent of civil servants were younger than 30 in 2000.

It is widely recognised that qualified mid-level managers are indispensable for running clinics effectively, yet individuals in these posts often lack the required experience and training. Ijumba (2002, in Chabikuli et al. 2005) attributes the problem to the low rank of these posts.²⁴ Poor management of clinics can increase the work of the nurses. In addition to their normal work load, nurses in poorly managed clinics may need to cope with administrative tasks such as the procurement of equipment, drugs and supplies (Chabikuli et al. 2005).

While there are several good reasons to advocate decentralisation and devolution, it is also vital to stress that these approaches are substantially more complex than centralised systems and more reliant on management and financial planning skills in lower levels of government. Due to this reliance, such approaches can entrench patterns of advantage and disadvantage between provinces and municipalities. For instance, Gilson and McIntyre (2007) report that poorer, rural areas are more frequently out of stock of key medical supplies, and have less access to diagnostic facilities and emergency transport. The observed persistence in differences in service delivery outcomes across provinces and municipalities could be attributable partly to differences in capacity of staff. Rural provinces and provinces containing old homelands suffer most, as they had either little existing public sector infrastructure to build on or were burdened by old homeland administrations characterised by inadequate infrastructure, resources and management capabilities. Additionally, it has been noted frequently that central departments have been reluctant to relinquish their power and responsibility,²⁵ resulting in pseudo-decentralisation.

Although there has been an improvement in management skills available at provincial level (Mokgoro 2000), signs of

While there are several good reasons to advocate decentralisation and devolution, it is also vital to stress that these approaches are substantially more complex than centralised systems.

inefficiency and poor planning and management remain, suggesting that more will have to be done. For instance, Blecher and Harrison (2006) report that provincial health departments continue to be plagued by underspending and vacant positions (see Table 4.2.7).

Better accountability and information systems are critical

Lack of accountability and transparency may have exacerbated the situation. Many government departments still do not have the information required to monitor service delivery. The timely and accurate capturing of the necessary dimensions of service delivery is critical not only for detecting problems, but also for enabling a system of rewards and punishments to effectively motivate employees to be responsive and courteous to users.

Recently, the health sector has taken confident strides in the right direction. Despite some initial hiccups, the District Health Information System (DHIS) has vastly improved the availability of useful information regarding public health institutions.²⁶ However, the progress in the health sector shows that lack of monitoring and feedback is not resolved by making information available. According to surveys and anecdotal evidence, until recently there were still problems with interpreting information and motivating managers to use information in decision-making (Burn & Shongwe 2003). Burn and Shongwe (2003) argue that the lack of information management skills is at least partly to blame for the low utilisation of information. Additionally, they allege that the DHIS data may not always be in line with user needs.

CONCLUSION

Over the past decade and a half, there has been progress in targeting funding and services towards the needs of the poor. Public spending on health is more equitable than it was before the political transition, and access to health care has been improved via the expansion of primary health care.

Despite these interventions, most health outcomes have worsened over this period. The overwhelming impact of HIV/

AIDS renders it difficult to make direct comparisons with the period prior to the transition. However, when interpreted in conjunction with other studies and indicators, there is cause for concern. There is evidence of problems with the quality of health care and the management of resources in the public health care sector. These problems are likely to have the most profound impact on poor and rural households, because they generally have the least provider choice and thus are often the most reliant on public health care facilities.

Without intervention, the situation is unlikely to improve. If anything, the pressures of food inflation and the deteriorating economic outlook are likely to increase the demands on public health care facilities in the short-to-medium term, which could worsen the situation.

NOTES

- 1 According to McIntyre & Gilson (2002), using estimates for 1990/91, South Africa's health status was worse than Botswana's and Zimbabwe's, both of which countries were regarded as less developed.
- 2 These indicators are from the government's 2008 *Development Indicators Report*, available at http://www.thepresidency.gov.za/learning/me/indicators2008/development_indicators.pdf
- 3 The millennium development goals aimed to have immunisation coverage rates at 90 per cent by 2015. The World Health Organisation's Stop TB Partnership aims to achieve a cure rate of 85 per cent by 2015.
- 4 The 1995 estimate is from *The Independent*, 08.03.05. The 2007 estimate is from the government's 2008 *Development Indicators Report*.
- 5 According to Leibbrandt et al. (2004), between 1996 and 2001 the proportion of African households with flush or chemical toilets had risen from approximately a third to 40 per cent. The government has since scaled up its investment in sanitation following a number of cholera outbreaks.
- 6 Examples of large campaigns include the LoveLife campaign on HIV/AIDS awareness and the Mvula Trust's efforts to train communities in health and hygiene awareness.
- 7 The income groups shown in this table and those below were calculated using a model generated from Stats SA (2000a) and under the presumption that there is a reasonable amount of stability across 2000 and 2003. However, our work is not very sensitive to these presumptions as they were only used to generate point estimates within eight wider household welfare categories to enable the estimation of 5 per capita income groups of equal size. The first income group is the poorest and the fifth income group is the richest. Burger and Grobler (2007) describe this method in more detail.
- 8 According to Stats SA (2003), 43 per cent of those who did not consult a health worker when they were ill gave costs as a reason, and 14 per cent cited travel distance as the constraint.
- 9 Some authors make the distinction between perceived quality of care and technical quality of care, but this distinction can be construed to be condescending and patronising towards users, with an implicit assumption that users may not be able to adequately evaluate the service that they receive. Although there are information asymmetry problems relating to health services, there is no evidence that the present authors are aware of that these problems are so severe as to render the user unable to form at least a reasonably accurate impression of the quality in most cases. Furthermore, the authors do not find this distinction useful for this work, as factors such as staff rudeness and long waiting times are viewed as relevant and important dimensions of the user's experience of health care – certainly no less so than the technical quality of the care received.
- 10 See Burger (2007b) on a comparison of satisfaction statistics for private and public care between 1998 and 2003. Gilson and McIntyre (2007) report that according to a 1998 Community Agency for Social Enquiry (CASE) survey, most respondents said that key aspects of the quality of care had remained the same or worsened since 1994.
- 11 Gilson and McIntyre (2007) report that staff rudeness may be an important deterrent to the demand for public health services. The research suggested that problems with staff morale may be the culprit, and concluded that management intervention and additional financial incentives may contribute to solving this problem.

- 12 It has been argued that this may be attributable to some poor families not having alternative choices, but this seems improbable given the observed increase in the face of an expansion in the physical proximity of public health centres.
- 13 Growth in private sector health care spending has outstripped that of public health care expenditure. What concerns many is that there are indications that the rapid growth in consumer spending on private hospitals and clinics may be due primarily to rising prices (McIntyre et al. 2007). Consequently, it is argued that private health care is becoming less and less affordable (McIntyre et al. 2006).
- 14 Such schemes have been discussed since the early 1990s. There are many concerns about the feasibility and desirability of the proposed schemes, but the main issue appears to be their acceptability for medical aid contributors, private providers and medical aid schemes. Initially, the idea was to generate the additional funding for more public resources via risk pooling, cost control (via utilising monopoly power on the demand side) and stronger cross-subsidisation. Under the Health Care Finance Committee's 1994 proposal, all formal sector workers would be compelled to contribute to social health insurance, but social health insurance could only cover public hospitals and then would provide patients with a choice between public and private clinics and GPs (McIntyre, Doherty & Gilson 2003). Given the problems with management and quality of the public sector health system – discussed in more detail later in this chapter – there are concerns that arrangements aspiring to move resources from the public to the private system could reduce the overall level and quality of health care services provided.
- 15 The predicted effect is dependent on a whole framework of assumptions – some of which seem quite implausible. This includes a number of assumptions with regard to how the system will change after its structure and incentives have been altered radically. For instance, any proposal that works on the premise that the public system should increase its share of users and resources (especially doctors and nurses) through legislation or restructuring is highly controversial and empirically suspect, as it neglects the free choice of both medical staff and users.
- 16 However, the report noted that private clinics did not offer comprehensive primary care services and were concentrated in urban areas. The limited evidence available suggested that private clinics provided a superior quality of curative care, but their chronic care record was weaker when compared to public clinics. Also, private clinics referred patients to public clinics or GPs for immunisations and TB treatment. Private clinics also offered no after-hours emergency services.
- 17 Palmer et al (2003) compared the cost and quality of private clinics *vis-à-vis* both private GPs and public clinics. The study found that private and public clinics had comparable provider costs: for a private clinic the cost per visit to the provider was R35–R44, which fell within the range of the public clinic's cost per visit of R27–R68 – both considerably cheaper than the average R89 provider cost of a visit to a general practitioner. The private clinics had high administrative costs and employed full-time doctors, yet their recurrent costs were only slightly higher than that of public clinics without private doctors (R33 vs. R29, or approximately \$3.30 vs. \$2.90). This was accomplished by savings in staff costs (enabled by their reliance on nurse practitioners as main service providers) and savings in drug costs (due to their strict computer-aided controls over the preparation, prescription and dispensing of drugs). Users said they were treated with respect in private clinics and that the staff 'made [them] feel important' (Mills et al. 2004: 940). At private clinics the waiting times ranged between 10 and 40 minutes versus 50 minutes to 3 hours at public sector clinics. The Palmer et al. (2003) study also found that users of private clinics were very satisfied with the service they were receiving and cited staff attitudes and waiting times as crucial differentiating factors.
- 18 There are at least two perspectives pertaining to the fair share of the most disadvantaged health care users. The first argues that a basic and acceptable level of health care should be available to all users – irrespective of their ability to pay. The second approach is more radical in terms of its redistribution aims and is associated with the concept of 'vertical equity'. It follows Marx's maxim that each should give according to their ability and receive according to their need. According to this perspective, the poor should receive a disproportionate share of spending because they represent a disproportionate share of need due to the association between poor health and poverty.
- 19 Department of Health research quoted by McIntyre et al. (2006) suggests that in 2001, 8 921 South African doctors were working abroad in five OECD countries – compared with the 11 332 South African doctors employed in the local public sector. Ntuli and Day (2003) cite a study showing that between 20 and 45 per cent of community service staff in the public health service aspire to work abroad once they have completed their training. Furthermore, the authors report that although there is an increase in the number of nurses who register with the South African Nursing Council (SANC), the number employed in the public sector has decreased somewhat, indicating that a growing proportion of nurses appear to prefer working overseas or in the private sector.
- 20 They quote these statistics from DoH (2005).
- 21 McIntyre et al. (2007: 61) note that 'salary levels in the public sector are far below provider income levels in the private sector'. They argue that this affects staff recruitment and retention, staff morale and quality of care.
- 22 For instance, a recent situation analysis compiled from Department of Health reports shows that 60 per cent of clinics had no nurses with primary health care training – while the norms and standards for clinics require at least one nurse with

primary health care training per clinic (South African Health Review 2005, chapter 8).

- 23 While the Department of Health has invested in new clinic buildings, it has not expanded its primary health care nursing staff in proportion. Population growth, migration and HIV/AIDS has worsened the staff shortage. In addition, nurses carry a heavier workload because of the expanding scope of practice in response to organisational changes (the integration of primary health care services) and new epidemics (Chabikuli 2005).
- 24 The centralised recruitment process also makes it difficult for the public sector to compete with the private sector. The recruitment process can take up to six months, according to anecdotal evidence, which can cause the public sector to lose good candidates (Chabikuli et al. 2005).
- 25 For instance, Ntuli and Day (2003) claim that there has been a seeming reluctance from some provincial staff to devolve power.
- 26 Ntuli and Day (2003) maintain that the data were littered with mistakes due to poor record-keeping. According to them, a survey of primary health care facilities showed that more than a third of clinics provided inconsistent or inaccurate data. This is similar to what Burger (2007b) and Burger and Grobler (2007) report concerning detailed provincial expenditure data.



briefing

HOUSING IN INFORMAL SETTLEMENTS: A DISJUNCTURE BETWEEN POLICY AND IMPLEMENTATION

Marie Huchzermeyer

INTRODUCTION

There have been confusing messages from the South African state in respect of slums eradication and slums clearance...These messages...have certainly played a part in bringing about a measure of polarisation between the state and the urban poor and a loss of understanding between the two. (Misselhorn 2008: 28)

This article is concerned with the increasingly negative measures taken in South Africa to do away with informal settlements or slums. As the second decade of democracy progresses, the political vision of what is to be achieved by 2014 is assuming increasing importance in statements by government leadership. 'Vision 2014' has become a frequent point of reference. The current target of 'eradicating' or 'eliminating' (terms that are used interchangeably in the South African policy discourse) informal settlements by 2014 has become a component of this vision. However, an analysis of the evolution of the informal settlement eradication target shows a longer, less direct and more problematic shaping of housing politics around informal settlements and, indeed, eradication.

Attention is drawn to the distance between the legally entrenched indirect approach to doing away with slums or informal settlements (terms that often are also used interchangeably) and the increasing direct eradication efforts in this country that are having an impact on legislation.

On the one hand, there is the legitimately entrenched legal policy on elimination and prevention of slums/informal settlements, which focuses exclusively on positive or indirect measures. These are aimed at structural causes of informal settlement formation and encompass improvement of land, services and housing provision. This would reduce and eventually dissolve the need for informal housing solutions. Upgrading of existing slums or informal settlements forms a central part of the approach. This positive approach to slum upgrading and prevention is endorsed by the United Nations through its Human Settlements Programme (UN-Habitat).

On the other hand, there are the direct or negative eradication efforts aimed at the outcome rather than the cause. They rely on coercive means such as eviction and forced relocation from existing informal settlements, and criminalisation, arrests and forceful prevention of the formation of new informal settlements, even when it is clear that these settlements emerge out of benign responses to ever-deepening housing need. These coercive approaches are present in provincial and municipal practice and are increasingly informing proposed and adopted changes to legislation. They are discouraged by the UN and are contested by grassroots movements and housing rights lawyers in South Africa.

This article traces the evolution of the 2014 slum eradication target in the political position of the Ministry of Housing. It shows the interaction, as well as a worrying disjuncture, with the UN's Millennium Development Goals, and also traces interaction with South African legislation. In so doing, the difference between a positive and a negative approach to doing away with slums is highlighted, and the non-implementation of the National Housing Programme on Upgrading of Informal Settlements (Chapter 13 of the Housing Code) is associated with the widely practiced negative approach to slum elimination. The call is made here for a return to the exclusively positive approaches to doing away with slums provided for in the Housing Act 107 of 1997 and in the 2004 Breaking New Ground (BNG) policy of the Department of Housing (DoH), which was endorsed by UN-Habitat. Thus, it is argued that all spheres of the South African government need to adhere to and implement the existing indirect and positive policy and legislation rather than attempting to reintroduce negative and direct measures into legislation. In addition, the indirect and positive approach requires strengthening through more far-reaching planning and land management reforms than have unfolded to date.

ABSENCE OF A SLUM ERADICATION FOCUS IN THE 1990S

Until 2000, the term 'eradication' was applied by the then housing minister in relation to the housing 'backlog' (Mthembi-Mahanyele 2000). This was consistent with the 1994 White Paper (DoH 1994), which does not refer to eradication of slums or informal settlements; indeed, it hardly engages with informal settlements, other than regarding them as representing a housing backlog. *In situ* upgrading of informal settlements, namely the improvement of living conditions within an informal settlement with

minimal disruption to residents' lives and livelihoods, is implied only indirectly, depending on one's reading of the White Paper.

Whereas slum or informal settlement eradication had not captured the political imagination of the late 1990s, the Housing Act does make reference to 'slum elimination'. Section 2(1)(iii) of the Act reads as follows:

national, provincial and local government must promote the establishment, development and maintenance of socially and economically viable communities and of safe and healthy living conditions to ensure the *elimination and prevention of slums and slum conditions*. (emphasis added)

The Housing Act, thus, legitimises only an indirect or positive approach towards doing away with slums. It promotes improved urban, economic and social development to the extent that slums will no longer be required. There is no principle in the Act on which one could base the type of direct interventions that were instituted by the apartheid government in its attempts to eliminate or eradicate slums, which consisted of active control over slum expansion, eviction, forced relocation to controlled transit camps, criminalisation of land invasions and mandating of municipalities and land owners to institute evictions. While reversed by the Housing Act, all of these have since found their way back into practice and, despite contestation, have been incorporated into proposed and approved legislation – in contradiction with the Housing Act.

In 2000, the South African government was far from embracing informal settlement upgrading (a component of positive slum elimination) and, instead, focused on relocation to formal housing, as well as to transit camps or temporary relocation areas, the latter in particular continuing apartheid practice (see Huchzermeyer 2003). However, the Ministry of Housing began to recognise the absence of upgrading in South African housing policy and indicated interest in learning more about this approach from countries such as Brazil (Mthembu-Mahanyele 2000).

MISINTERPRETATION OF THE MILLENNIUM DEVELOPMENT GOAL ON SLUM IMPROVEMENT

The term 'eradication of informal settlements' entered official ministerial statements for the first time in 2001. Minister Mthembu-Mahanyele (2001) in her 2001/02 Housing Budget Vote referred to the need to eradicate informal settlements, which she refers to as a 'daunting

challenge', suggesting a shift from the focus on mass delivery of houses.

What the minister articulated as a challenge was understood by her officials as a directive. National Department of Housing officials interviewed in 2001 referred to a new political vision of a 'shack-free city', with the Department being mandated 'to "eradicate informal settlements" in the next 15 years' (see Huchzermeyer 2004a: 335). The confusion between challenge and directive has permeated housing practice and, particularly in the term of the current housing minister, has informed legislative changes.

The source of this confusion can be traced to South Africa's response to the Millennium Development Goals (MDGs) and targets developed by the UN, to which the South African state committed itself in 2000. The slogan 'Cities Without Slums' is officially attached to MDG 7 Target 11, which is to significantly improve the lives of 100 million slum dwellers by 2020 (UN 2000). Internal to this MDG target is an unfortunate divergence between, on the one hand, the target of significantly improving the living conditions of 100 million slum dwellers, and, on the other hand, the slogan of slum-free cities. The target of 100 million slum dwellers represents only just over 10 per cent of the estimated global slum population. UN-Habitat (2005a) estimates that 924 million people were living in slums globally in the year 2000, a figure that is expected to more than double in the first three decades of the new millennium and then to double again every 15 years. The target, therefore, does not correlate in the slightest with the slogan of achieving cities without slums. Significantly improving the lives of 100 million slum dwellers is considered to be achieved once this number has received relief in relation to any one of the UN-Habitat slum criteria – access to water, access to sanitation, improved structural quality of housing, reduced overcrowding and improved security of tenure (UN-Habitat 2005b). However, a separate MDG target of halving the population without access to water and sanitation by 2015 (Target 10) compliments and supports the slum improvement target.

In South Africa, slum or informal settlement figures are monitored at municipal level. In 2004, between 18 and 23 per cent of households in South Africa's six largest cities lived in informal settlements (Huchzermeyer, Baumann & Roux 2004). In a recent review of municipal responses to informal settlements, McIntosh Xaba and Associates (2008a) were unable to update these figures due to inconclusiveness of available data. Like most studies before them, they interchangeably use figures for households in 'informal settlements' and in 'informal structures'. The latter may be in backyards, on formal serviced sites or in authorised tempo-

rary relocation areas. This further weakens their attempt at making any statement on the growth of informal settlements in South African cities.

the census and community surveys provide no conclusive data on the number of informal settlement dwellers and on increases or decreases in that number

Similarly, the 1996 and 2001 census categories, repeated in the 2007 Community Survey questionnaire (Stats SA 2006), accommodate informal settlements in their dwelling types only as 'Informal dwelling/shack NOT in backyard e.g. in informal/squatter settlement' – this includes shacks in authorised temporary relocation areas and on formal serviced sites. Under tenure types, the questionnaire accommodates informal settlements under the category 'occupied rent free', a category that applies equally to other forms of dwelling, notably temporary relocation areas or serviced sites for which ownership has not been transferred, and depends on exact interpretation or perception of ownership. Thus, the census and community surveys provide no conclusive data on the number of informal settlement dwellers and on increases or decreases in that number. Therefore, the Ministry of Housing, in support of its 2006 and 2008 proposed amendments to the Prevention of Illegal Eviction from and Unlawful Occupation of Land Act 19 of 1998 (both turned down by Parliament), put forward the *unsubstantiated* argument that it was the 'nature and increase in land invasions' that required the government 'to make it an offence for a person to arrange the unlawful occupation of land' (RSA 2005).

Likewise, the Minister of Housing's figures (MoH 2008) for an increase in the 'number of households living in shacks in informal settlements and backyards' of 26 per cent between 1996 and 2001, presented in the Constitutional Court on 21 August 2008 in the case of *Various Occupants v Thubelisha Homes and Others* (CCT 22/08), are inconclusive.

The direct reference in Goal 7 Target 11 to the slogan 'Cities Without Slums' is derived from an earlier programme of the Cities Alliance, which was incorporated into the UN's MDGs (UN 2000). In UN-Habitat's *Global report on human settlements 2003: The challenge of slums*, which supports the slum improvement target, reference is made to 'the long journey towards cities without slums' (UN-Habitat 2003: vii, 53). The actual target of improving the lives of 10 per

cent of slum dwellers is to be achieved through the positive approach of 'participatory slum upgrading programmes that include urban poverty reduction objectives', which the report promotes as 'best practice' (UN-Habitat 2003: vii). UN-Habitat lists 'unsuccessful' approaches to dealing with informal settlements. Among them is eviction, which was common practice in the 1970s and 1980s. 'Squatter evictions have created more misery than they have prevented' (UN-Habitat 2003: 104). Regarding the longer-term goal of achieving 'Cities Without Slums', UN-Habitat acknowledges that measures are required to 'prevent the emergence of more slums'. However, within the same indirect or positive approach set out in the Housing Act, UN-Habitat urges that slum upgrading programmes be combined with:

clear and consistent policies for urban planning and management, as well as for low-income housing development...[which] should include supply of sufficient and affordable land for the gradual development of economically appropriate low-income housing by the poor themselves, thus preventing the emergence of more slums. (UN-Habitat 2003: xxvii)

UN-Habitat takes a strong stand against a direct approach to slum eradication, one that would promote criminalisation of land invasions, relocations, evictions and controlled transit camps as measures for prevention of the emergence or re-emergence of slums. UN-Habitat is even cautious of the term 'eradication' itself. In its index, UN-Habitat associates 'eradication' with 'clearance' and 'eviction' – the direct and negative approach, which was taken by the apartheid government in South Africa. UN-Habitat states very clearly that:

eradication and relocation destroys, unnecessarily, a large stock of housing affordable to the urban poor and the new housing provided has frequently turned out to be unaffordable with the result that the relocated households move back into slum accommodation... Relocation or involuntary resettlement of slum dwellers should, as far as possible, be avoided. (UN-Habitat, 2003: xxviii)

As is shown below, the South African state's political response to its commitment to the MDGs is informed by the compelling 'Cities Without Slum' slogan, rather than by the actual MDG target of significantly improving the lives of 10 per cent of slum dwellers by 2020. Further, it perceives the slogan as a directive rather than a mere challenge. Thus, in his report on a mission to South Africa, the UN Special

Rapporteur on Adequate Housing points out that:

there may have been a misunderstanding as to how to respect international commitments, such as the Millennium Development Goals, that may have led to efforts being directed to the eradication of slums rather than the improvements of the lives of slum dwellers. (UNHRC 2008: 17)

THE POLITICAL TARGET TO ERADICATE INFORMAL SETTLEMENTS BY 2014 VERSUS THE POLICY TARGET TO IMPLEMENT INFORMAL SETTLEMENT UPGRADING

Beyond mere political vision, a determination to reach the target of eradicating informal settlements was articulated for the first time by the current Housing Minister in June 2004. It was provincial bravery that linked this date to the vision of a city without slums, informal settlements or shacks. In her 2004/05 budget speech, the newly appointed Minister Sisulu applauded the Gauteng Premier for his 'bold assertion that informal settlements in his province will have been eradicated in ten years'. She further announced: 'What we shall then be delivering to Cabinet by the end of July is the how, and how many. That is our commitment.' (Sisulu 2004)

Despite this pronouncement, Minister Sisulu's 'Breaking New Ground': A Comprehensive Plan for the Development of Sustainable Human Settlements (DoH 2004a), approved by the Cabinet in September 2004, makes no reference to a target to eradicate informal settlements by 2014. Whereas UN-Habitat would discourage the use of the term 'eradication' altogether, it is used in the BNG policy only in the positive and indirect approach to doing away with informal settlements, which is entirely in line with the positive and indirect approach in the Housing Act and is supported by UN-Habitat. 'Breaking New Ground' sets out six clear steps in the shift 'from housing to sustainable human settlements' (DoH 2004a: 11). The first is termed 'progressive informal settlement eradication', and introduces:

a new informal settlement upgrading instrument to support focussed eradication of informal settlements... a phased *in-situ* upgrading approach to informal settlements, in line with international best practice. Thus, the plan supports the eradication of informal settlements through *in-situ* upgrading in desired locations, coupled to the relocation of households where development is not possible or desirable...Upgrading projects will be implemented by municipalities and will commence with nine pilot projects, one in each province

building up to full programme implementation status by 2007/8. (DoH 2004a: 12)

The 'lead project' is the 'N2 upgrading project from the Airport to Cape Town' (DoH 2004a: 12). 'Breaking New Ground' notes, in addition, that:

It is recognised that high rates of urbanization within larger cities and secondary towns will also necessitate the introduction of a fast-track land release and service intervention mechanism to forestall the establishment of informal settlements. (DoH 2004a: 12)

'Informal settlement upgrading' appears first in the list of three 'existing and new housing instruments' presented in 'Breaking new Ground'. The wording of this instrument reinforces an exclusively indirect and positive approach to doing away with informal settlements: 'A more responsive state-assisted housing policy, coupled to delivery at scale is expected to decrease the formation of informal settlements over time' (DoH 2004a:17).

Beyond this, it sets out an approach to community engagement that is aligned with the 'participatory slum upgrading' model promoted by UN-Habitat:

There is also a need to shift the official policy response to informal settlements from one of conflict or neglect, to one of integration and cooperation, leading to the stabilization and integration of these areas into the broader urban fabric. (DoH 2004a:17)

This positive and indirect approach of participatory slum upgrading wherever possible, coupled with responsive state-assisted housing delivery, in addition to the fast-track release and servicing of land, is weakly supported by the South African government. What is lacking is a substantial reform process that would promote and enable the upgrading and the responsive land release, servicing and housing delivery. In Brazil, where the terms and targets for 'eradication' have not taken root, a National Forum for Urban Reform relentlessly demanded reform. This culminated in a change to the Constitution in 1988 and in the enactment of a Cities Statute in 2001, paving the way from incremental to more far-reaching reform (Huchzermeyer, 2004b: 130).

'Breaking New Ground' refers to 'greater detail in the Informal Settlement Upgrading Programme Business Plan' (DoH 2004a: 17). This appeared also in 2004 in Chapter 13 of the Housing Code (DoH 2004b). However, as is shown below, implementation of the programme received no

political support. Wider reforms that would promote and enable appropriate land release and servicing (other than through controlled transitional relocation areas, TRAs), and forestall the formation of informal settlements, have not been developed or promoted. Therefore, the positive and indirect approach to doing away with informal settlements exists only partially in policy and legislation; and, even where it exists, it is being ignored in favour of a target to forcefully eradicate informal settlements by 2014.

IGNORED POLICY TARGET: THE NON-IMPLEMENTATION OF INFORMAL SETTLEMENT UPGRADING

To date, 'Breaking New Ground', and Chapters 12 (Housing Assistance in Emergency Housing Situations) and 13 (Upgrading of Informal Settlements) of the National Housing Code have not been added to the National DoH's website. In June 2006, Gauteng Province permitted a leading engineering consultant, in a feasibility report for developing the informal settlement Harry Gwala, which is home to over 2 000 households, to state that 'compliance with the new Comprehensive Plan for Integrated Sustainable Human Settlements' ('Breaking New Ground') could not be established, as 'VIP was to date unable to obtain' the document (VIP 2008: 7). Instead of considering *in situ* upgrading, the consultants propose demolition of the very orderly and eminently upgradeable settlement, and its replacement with no more than 389 residential stands under the Province's Essential Services Programme. This plan, which has been met with resistance from the Harry Gwala Civic Committee, involves the forceful relocation of the majority of the households.

There is no evidence that the nine informal settlement upgrading pilot projects were carried through under Chapter 13 of the Housing Code and in accordance with its innovative principles, let alone attempting to achieve full implementation of the programme by 2007/08, as targeted in 'Breaking New Ground'. The 'lead project' for informal settlement upgrading (the 'N2 project' in Cape Town), as well as the broader interpretation of the intentions of the BNG policy, have undergone political mutations since 2004. These have been reflected in the media – in 2005, the *Mail & Guardian* referred to the 'flagship N2 Gateway Project' as 'the government's pilot initiative to eradicate shacks', and reported that it:

is the first of 18 projects country-wide, two per province, under the new Sustainable Human Settlement Plan. This aims to *clear shack settlements* and establish integrated, safe and people-friendly communities. (*Mail & Guardian*, 6–12.05.05, emphasis added)

Clearing shacks is not an approach promoted under Chapter 13 of the Housing Code, nor is it experienced as an improvement in the lives of those living in informal settlements. By mid-2008, resistance to continued shack clearance and forced relocation from the Joe Slovo informal settlement to make space for the third phase of the N2 Gateway housing project had taken its legal course. On 21 August 2008, the Constitutional Court heard the Joe Slovo residents' application to have the controversial High Court eviction order (for forced removal from Joe Slovo to a controlled TRA in Delft) overturned. The learned judges were surprised to hear evidence from *amici curiae* (friends of the court) that residents of the N2 project, identified in 'Breaking New Ground' as an informal settlement upgrade, had a legitimate expectation to have Chapter 13 of the Housing Code (Upgrading of Informal Settlement Programme) implemented in the Joe Slovo settlement. The *amici curiae* demonstrated that this programme applies not only to upgradeable informal settlements, but to all informal settlements, including those deemed not, or only partially, suitable for upgrading (CLC & COHRE 2008). Their argument was that current implementation of the 'N2 Gateway Project in relation to the Joe Slovo residents is fundamentally at odds with the principles on which BNG is based' (CLC & COHRE 2008: para. 16).

In her response to the Joe Slovo applicants, the Minister of Housing admits to a shift from an original undertaking to upgrade the N2 informal settlements, stating that the project had 'evolved over time' (MoH 2008: para. 155). She refers to the N2 Gateway broadly as the 'pilot project of the BNG policy' (MoH 2008: para. 167.5). The Minister states a number of reasons for not attempting upgrading or relocation as set out for informal settlements under 'Breaking New Ground'. In doing so, she refers to an affidavit by the former Deputy Director-General of Housing, Ahmedi Vawda, who 'was tasked specifically with rewriting national policy' (MoH 2008: para. 142), i.e. under whom 'Breaking New Ground' was formulated, when setting out these reasons:

- 'South Africa as a nation has little experience with *in situ* redevelopment and none of it on a scale such as would be required at Joe Slovo';
- 'high degrees of skills' and 'human resources' are required;
- delivery is slow;
- partial relocation would require consensus to be reached in the community 'on who would go and who would stay';
- implementation is 'hard';

- ‘engineers, builders and surveyors are generally averse’; and
- ‘there are no institutional mechanisms available to the Housing Department to undertake an *in situ* upgrade’ (MoH 2008: para. 226.1–8).

Four years after the adoption of Chapter 13 of the Code, and at a time when full implementation was originally envisaged in the Cabinet-approved ‘Breaking New Ground’ programme, each of the above challenges ought to have been addressed through the identified pilot projects. The very purpose of pilot projects, according to Mattingly (2008: 129), is ‘to create experience from which others can learn’, rather than to shy away from such experience. Experience, skills and support from the professions needed to be built actively and institutional mechanisms developed. The resources and time available for the contested construction of the first two phases of the N2 project could have been used for upgrading under Chapter 13 of the Code. As Charlton (2006) points out, various *in situ* upgrading programmes, notably the large-scale Besters Camp upgrade in Durban in early 1992, have resulted in the acquisition of professional skills and experience that should be identified and built upon.

However, the Minister of Housing further justifies the approach to the N2 Gateway project through the need to eradicate informal settlements. The frequently mentioned TRAs (in effect, controlled transit camps) in relation to the N2 Gateway project are a disturbing, negative and direct eradication component. This is also evidenced by the Joe Slovo residents’ objection to being moved to the TRAs. Consensus on partial relocation would almost certainly have been easier to negotiate under Chapter 13 of the Code than was the case with the deeply contested relocation to TRAs in Delft, via litigation in the High Court and Constitutional Court.

While target-setting is an important component of performance monitoring in the current model of urban management in South Africa, the wrong target has informed the approach to informal settlements. What has been ignored politically is that an explicit target was set in the BNG document, namely to achieve full implementation of the Upgrading of Informal Settlements Programme by 2007/08. This target was never politically promoted. Instead, coupled with an increasingly negative and direct approach to doing away with informal settlements, the target of achieving shack-free cities by 2014 filled the void left by the Reconstruction and Development Programme (RDP) target of delivering a million housing opportunities in the first five years of democracy, which was reached around 2001.

As confirmed by a recent review conducted across a range of municipalities for the DoH (McIntosh Xaba and Associates, 2008b), and a similar and simultaneous study by Urban Landmark for the Presidency (Misselhorn 2008), upgrading of informal settlements under Chapter 13 of the Housing Code has not been implemented by any of South Africa’s large cities. Only the City of Cape Town, in response to initiative, lobbying and groundwork by the NGO, Development Action Group (Macgregor 2008a), applied for funding in 2008 for *in situ* upgrading under this programme and in accordance with the principles defined in the programme. Phase 1 of the Hangberg informal settlement upgrade was recently approved by the Provincial Administration of the Western Cape (Macgregor 2008b).

While target-setting is an important component of performance monitoring in the current model of urban management in South Africa, the wrong target has informed the approach to informal settlements.

Although there is no mention of the 2014 slum eradication target in the 2004 BNG policy, a year later it had been adopted as a national target and was directly associated (though with little concern for accuracy) with the MDGs:

Thus, in line with our commitment to achieving the Millennium Development Goals we join the rest of the developing world and reiterate our commitment to progressively eradicate slums in the ten year period ending in 2014. (Sisulu 2005)

DIRECT OR NEGATIVE SLUM ELIMINATION INFORMING LEGISLATIVE CHANGES IN SOUTH AFRICA

Despite only indirect and positive measures to do away with informal settlements in the BNG policy, disturbing legislative changes have been attempted to allow for and enforce direct and negative eradication measures. The first of these was at national level, with a 2006 amendment to the Prevention of Illegal Eviction from and Unlawful Occupation of Land Act 19 of 1998. Among various proposed amendments, it sought to tighten the criminalisation of land invasion. In the context of a Constitution that protects private property, Section 4.3(1)(a) of the Act legitimately criminalises receipt or soliciting of ‘payment of any money or other consideration as fee or charge for arranging or organising or permitting a

person to occupy land without the consent of the owner or person in charge of that land'. However, the amended Section 4.3(1)(b) extends this to the benign occupation of unused land by desperately poor people with an urgent need for housing: 'No person may arrange or permit any person to occupy land without the consent of the owner or person in charge of the land'. This is a direct, negative and forceful measure to prevent the benign formation of informal settlements, whether arranged by households themselves or by grassroots social movements representing people living in desperate conditions, in a context where municipalities are clearly not managing to release enough suitable land for occupation by the urban poor, and the urban planning and land management system is not sufficiently reformed to allow for affordable legal access to appropriate land. The lack of substance to the justification for this tightening of the Act, namely 'the nature and increase of land invasion', has been referred to above.

This concern was raised among several formal submissions made on the 2006 amendment (see Huchzermeyer 2007a). The amendment was tabled in Parliament unchanged and was turned down. A subsequent Amendment Bill, covering largely the same proposed amendments, had the exact same wording as its predecessor regarding the criminalisation of arranging the unlawful occupation of land. This Bill too was turned down by Parliament (Thatcher 2008).

In 2006, the KwaZulu-Natal Legislature produced the KwaZulu-Natal Elimination and Prevention of Re-emergence of Slums Bill. This Bill clearly aligned itself with the direct and negative approach to doing away with slums. The preamble states the objective of the Bill as being 'to introduce measures which seek to enable *control* and elimination of slums, and the prevention of their re-emergence'. By introducing direct and negative measures for slum eradication, the Bill goes further than the erstwhile proposed amendments to the Prevention of Illegal Eviction from and Unlawful Occupation of Land Act. The Bill not only criminalises the arrangement of unlawful occupation, but, through Section 4(1), the occupation itself. Further, it mandates landowners, 'within twelve months of the commencement of this Act, [to] take reasonable steps...to prevent unlawful occupation'. Under Section 15(1), these steps include fencing off vacant land and 'posting of security personnel'. Owners of land already occupied unlawfully are required by Section 16(1) to 'institute proceedings for the eviction of the unlawful occupiers concerned', and, if the owner fails to do so, the relevant municipality is required by Section 16(2) to seek an eviction order. Among the formal objections to the Bill was concern with the return to the

direct and negative measures of the repealed Prevention of Illegal Squatting Act 52 of 1951, which mandated landowners on whose property poor people had settled with instituting eviction procedures (Huchzermeyer 2007b).

Despite many formal submissions objecting to this and other aspects of the 'Slums Bill', it was enacted on 18 July 2007 with no changes to the clauses mentioned here. In February 2008, the Durban-based grassroots social movement Abahlali BaseMjondolo submitted an appeal to the High Court arguing the unconstitutionality of the KwaZulu-Natal Elimination and Prevention of Re-emergence of Slums Act and its contradiction of the principles of 'Breaking New Ground' and Chapter 13 of the Housing Code (Abahlali BaseMjondolo 2008). At the time of writing, the case was yet to be heard.

Notwithstanding the court challenge to the 'Slums Act', in early 2008 the Housing MINMEC (constituted by the Minister of Housing and all the nine provincial Members of the Executive Council) announced that 'all provinces should formulate provincial legislation on the eradication of informal settlements', and the terms of reference stipulated 'that by November 2008, all provinces must have the legislation in place, using KwaZulu-Natal as a base or reference as they already have the legislation on the eradication of informal settlements'. In the official correspondence, this requirement is linked to the 'presidential priority on eradication of informal settlements' (Eastern Cape DoH 2008).

The instruction to provinces to promulgate provincial legislation to do away with slums can be argued to be in accordance with Section 2(b) of the Housing Act, which, under the larger obligation of provincial governments in terms of Section 7(1) to 'promote and facilitate the provision of adequate housing in its province within the framework of the national housing policy', provides that 'every provincial government must through its MEC promote the adoption of provincial legislation to ensure effective housing delivery'.

However, such provincial legislation may not contradict the principles of the Housing Act. With regard to doing away with slums, Section 2(1)(iii) of the Act (as quoted above) promotes only a positive and indirect approach, requiring all tiers of government to establish, develop and maintain 'socially and economically viable communities' and 'safe and healthy living conditions' in order to 'ensure the elimination and prevention of slums and slum conditions'. The KwaZulu-Natal 'Slums Act' is clearly based on political sentiment rather than legislated policy.

CONCLUSION

This article has contrasted a positive and indirect approach to improving the lives of informal settlement dwellers and preventing the emergence of new informal settlements with a negative and direct approach to doing away with slums coupled with the political target of shack-free cities by 2014. The negative approach focuses on measures of control and of forceful prevention of the emergence of new informal settlements. It has been shown that this approach remains unsupported by entrenched policy, yet has been promoted through contested legislative amendments that contradict policy. This direct promotion is underpinned by a confusion between the broad challenge of doing away with slums and an increasingly politically articulated directive of ensuring shack-free cities by 2014.

The alignment has been highlighted between the Housing Act, the BNG policy (with Chapter 13 of the Housing Code)

and UN-Habitat's approach to improving the lives of slum dwellers, all exclusively supporting an indirect and positive approach to doing away with slums. It is paramount that the South African state recommits itself to this positive and indirect approach by widely promoting the principles of 'Breaking New Ground' and Chapter 13 of the Housing Code, patiently piloting these, building the necessary skills and expertise and professional support, building on existing expertise and creating relevant institutional mechanisms. While these would be the first steps in reversing the current polarisation and lack of understanding between the state and the urban poor, expressed in the quote by Misselhorn (2008) with which this chapter is prefaced, the positive and indirect approach to doing away with informal settlements requires more far-reaching urban planning and land management reform.



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